

New York
State College of Agriculture
At Cornell University
Ithaca, N. Y.

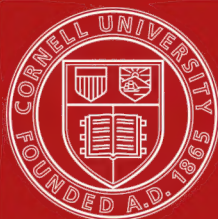
Library

Cornell University Library
HB 171.7.F64

Clue to the economic labyrinth



3 1924 013 754 712



Cornell University Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

CLUE TO THE ECONOMIC LABYRINTH

CLUE TO THE ECONOMIC LABYRINTH

BY

MICHAEL FLÜRSCHHEIM

Author of

'Auf friedlichem Wege," "Der einzige Rettungsweg," "Rent, Interest, and Wages," "The Real History of Money Island," etc.,



LONDON
SWAN SONNENSCHN & CO., LIM.
PATERNOSTER SQUARE

@
HB171.7
F64
AE

@ 42471

I DEDICATE THIS BOOK
TO
THE PEOPLE OF NEW ZEALAND

PROGRESS

The time is ripe, and rotten-ripe, for change ;
Then let it come : I have no dread of what
Is called for by the instinct of mankind ;
Nor think I that God's world will fall apart
Because we tear a parchment more or less.
Truth is eternal, but her effluence,
With endless change, is fitted to the hour ;
Her mirror is turned forward to reflect
The promise of the future, not the past.
He who would win the name of truly great
Must understand his own age and the next,
And make the present ready to fulfil
Its prophecy, and with the future merge
Gently and peacefully, as wave with wave.
The future works out great men's purposes ;
The present is enough for common souls,
Who, never looking forward, are indeed
Mere clay, wherein the footprints of their age
Are petrified forever ; better those
Who lead the blind old giant by the hand
From out the pathless desert where he gropes,
And set him onward in his darksome way.
I do not fear to follow out the truth,
Albeit along the precipice's edge.
Let us speak plain : there is more force in names
Than most men dream of ; and a lie may keep
Its throne a whole age longer, if it skulk
Behind the shield of some fair-seeming name.
Let us call tyrants tyrants, and maintain
That only freedom comes by grace of God,
And all that comes not by His grace must fall ;
For men in earnest have no time to waste
In patching fig-leaves for the naked truth.

—*James Russell Lowell.*

CONTENTS

CHAPTER I

WANTED, A NEW GOSPEL : The Old Gospel, 1 ; Change of the Problem, 3 ;
The New Gospel, 12 ; Help given by Religion, 12.

CHAPTER II

THE LAND : Bridge Building, 14 ; Principles of Land Reformers, 16 ;
Monopoly Character of Land, 18 ; Free Trade in Land, 22 ; Defence
of the Freehold, 23 ; Peasant Proprietors, 26 ; Concentration of Pro-
perties, 28 ; Power the Basis of Land Titles, 33 ; Despotism better
than Anarchy, 34 ; Equal Division impossible, 35 ; What destroyed
the Mark, 36 ; Why not make the Community the Owner, 37 ; Difference
between the Lease System and that of Mark or Mir, 38 ; Distribute
the National Rental for Pensions or for the Relief of Taxation, 39 ;
How to limit Land Accumulations, 43 ; Limitation of the Right of
Inheritance, 43 ; A Limitation of the Amount of Land which one
Family may own, 44 ; A Taxation of Land Values, 45 ; Value, 45 ;
Improvements a Title to Ownership, 47 ; Interest on Improve-
ments, 49 ; The Single Tax, 50 ; Principles of Taxation, 51 ; Income,
Mortgage, and Bond Taxes, 51 ; Indirect Taxes, 53 ; Rent not included
in Price, 54 ; Shop Rents and Prices, 56 ; Objection, 57 ; Rating of
Ground Rents, 58 ; Cheapening of unimproved Land changes the
Case, 59 ; Rating on unimproved Values, 59 ; Confiscatory Nature of
Land Tax, 60 ; The Abrogation of Private Land Ownership, 60 ;
Progress and Poverty, 61 ; Land Taxation is not Land Restora-
tion, 62 ; Land Taxation would not prevent Land Monopolisa-
tion, 64 ; Land Taxation would not put an End to the Abuses
of Landlordism, 65 ; Self-Interest does not insure best Use, 69 ;
The Case changes under Land Nationalisation, 70 ; Cash Payment
is not the sole Nexus of Man with Man, 71 ; Henry George's
Motives, 73 ; Confiscation or Compensation, 73 ; Force against Force,
75 ; The Seller calling his Customer a Thief, 76 ; A bad Precedent, 77 ;
Honesty the best Policy, 77 ; Attack against Herbert Spencer, 77 ;
Compensation for a Tax, 78 ; A Grievance against Spencer, 78 ; Land
Nationalisation a Shock to present Customs and Habits of Thought,
79 ; Land Nationalisation involves Extension of Government Machinery,
80 ; No fear of Corruption in Tax Collection, 81 ; Single-Tax the easiest
Method of carrying the Reform, 81 ; Certainly the most Dangerous,

81 ; Rebate of Rent Bill, 82 ; Referendum as a Protection, 83 ; Occupation, not Freehold the old Form, 83 ; Opposition of Land-owners to Single Tax, 84 ; Appeal to the Lower Motives, 85 ; Danger of mixing Land and Tariff Problem, 85 ; The Mortgage the most serious Obstacle, 85 ; Cutting the Dog's Tail piece-meal gives more Compensation than immediate Land Purchase, 86 ; The most practical and honest Method, 87 ; The State's Right of Pre-emption at Present Prices, 89 ; Building Regulations do not affect House Rents but Land Values, 90 ; Taxing vacant Building Lots, 91 ; Defence of Non-Compensation, 91 ; The Freehold doomed, 93 ; Unearned Increment made by Public Improvements, 94 ; Limitation of Right of Pre-emption, 95 ; Effects of the Law, 96 ; Tax and Take, 97 ; Lease in Perpetuity, 97 ; Administration of the Public Land, 99 ; Length of Leases, 99 ; City of Wellington Leases, 100 ; Risks of the Tenant, 101 ; Betterment Clause, 102 ; Lease of Hamburg's Free Port, 102 ; Contrast with such far-seeing Policy that practised in Australia, 103 ; Close Building, 104 ; Szegedin and Galveston, 105 ; Fanaticism on Special Methods kept us back, 105 ; The Ashbourne Acts, 106 ; The Capitalist the worst Landlord, 107 ; Germany's Land Reform in China, 107 ; Our Colonies' suicidal Land Policy, 109 ; Investment of Capital in Land welcomed, 111 ; The Freehold handicaps the Land-user, 112 ; The Interest of the Landlord is always opposed to the Interest of every other Class in the Community, 113 ; Laying the Blame at the Wrong Door, 114 ; Attack the System, not those who profit by it, 115 ; Other Aspects of the Land Problem, 121.

CHAPTER III

MONEY : (1) Definition of Classification, 122 ; Confusion of Paper Money and Paper Currency, 124 ; Elastic Boundary Line between Class 1 and Class 2, 125 ; Money Evolutions, 126 ; Preference given to certain Metals, 127 ; Token Money the Means of Exchange of a higher Civilisation, 128 ; (2) The Value of Money, 130 ; The Value of Money is its Purchasing Power, 130 ; In Gold Currency Countries the Value of Money is the Value of Gold, 130 ; Cheap and dear Money, 131 ; The Quantity Theory, 133 ; Influence of Circulating Quantity, 133 ; Rapidity of Circulation, 133 ; Influence of Barter, 134 ; Influence of Credit, 134 ; Money Debts and Money Stock, 135 ; State of Credit affects Prices more than Money Stock, 137 ; The Course of the Crisis of 1847, 137 ; The Financial Crisis of July, 1893, in the United States, 138 ; The Chronic Crisis, 139 ; The Gold Basis an Inverted Pyramid, 140 ; Bimetallism, 142 ; Gresham's Law, 143 ; Cost of Production, 145 ; Price of precious Metals determines Cost of Production, 145 ; Speculation and Mining, 147 ; The Effect of Bimetallism on the Value of Money, 148 ; Waste of Productive Power, 150 ; Enriching of Mine Owners, 151 ; The Old Commodity Money Groove, 151 ; Standard and Measure of Value, 152 ; Wheat Proposed as Money, 154 ; Superiority of Money which the Workers can produce, 156 ; Leo

Tolstoy's Illustration, 156 ; The Great Difference between a Money consisting of the Ordinary Produce of Labour and one which can only be obtained through the Sale of such Produce, 158 ; Money is not merely a Measure of Value and Means of Exchange, but is also demanded in Payment of Debts, 159 ; Power of Usury produced by our Legal Tender Money, 159 ; A nice Standard of Value, indeed, 160 ; The Power of Habit, 160 ; The Financier's Gospel, 160 ; Money as a Store and Representation of Wealth, 161 ; Labour Time, 163 ; Only what is Marketable can be a Standard of Value? 164 ; What is the best Standard of Value? 164 ; Has Token Money Market Value? 165 ; Facts prove the Money Quality of Token Money, 167 ; The Assignat Scare, 168 ; Paper Money can be made a better Standard of Value than Gold or Bimetallistic Money, 168 ; The History of the American Greenbacks, 169 ; Exaggeration and Radicalism defeat their own ends, 171 ; Single Taxers afford another Example, 171 ; Co-operative Settlements, 172 ; The Greatest Enemies of a Rational Currency, 172 ; There can be only one kind of Security behind Money of our Third Class, Token Money, and that is its Wealth-Purchasing Power, 172 ; Not a single Case is known in Modern History where an inconvertible Paper Money was issued under Normal Conditions, 173 ; A perfect Standard of Value for Money, 173 ; Money Circulation regulated by a Tabular Standard of Prices, 174 ; Normal Table, 175 ; History of the System, 176 ; Differing from former Tabular Standard Proposals, 177 ; Difficulties, 179 ; Retail Prices, 180 ; Raw Materials, 180 ; Land Values and Rents, 180 ; Wages, 181 ; Methods of Issue, 182 ; Crises Prevented, 183.

CHAPTER IV

THE EFFECT OF A SCIENTIFIC PAPER CURRENCY : (a) In National Intercourse : Crises are Chronic, 185 ; The destructive Effects of our Currency, 186 ; A Money-lender and his Victims, 187 ; Part played by Land Ownership, 187 ; Scientific Currency gives immediate Help, 187 ; The Causes of the Crisis not due to Changes in the Process of Production, 188 ; Over-production, 189 ; Supply and Demand kept apart by Money Monopoly, 190 ; Effect of Wealth Accumulations, 192 ; Hoarding not the Cause, 193 ; Two Kinds of Circulation, 193 ; The Effect of Accumulation on Circulation, 194 ; Temporary Revivals of Trade explained, 197 ; The Reaction, 198 ; The Crisis, 200 ; Want of Employment and its Effects, 201 ; Effect of the new Currency, 201 ; Merchandise becomes a Security, 202 ; Unlimited Basis of Credit, 203 ; Over-production in reality Under-consumption, 204 ; Wage Fund Fallacy, 204 ; Absence of Tools not responsible for Want of Employment, 205 ; Superior Tools do not render inferior Ones worthless, 205 ; Want of Capital in this sense never needed to exist, 206 ; Over-production shows an Excess of Capital, 207 ; The new Money, by taking out of the Way the worst Obstacle, 208. (b) International Intercourse :

Part played by Gold, 209 ; Gold unnecessary internationally if Commodities are paid for with Commodities, 210 ; Relative Unimportance of International Trade, 211 ; Commodities often are not paid for with Commodities, 212 ; Importations paid with Tribute Claims, 214 ; Favourable Balances always best, 215 ; Error of Adam Smith, 216 ; Fatal Influence of Adam Smith, 217 ; "Money necessarily runs after Goods, but Goods do not always necessarily run after Money," 218 ; Interest forgotten, 219 ; Effect of unfavourable Trade Balances, 220 ; Adam Smith and Trade Balances, 222 ; A false Premise, 223 ; Birds of a Feather, 224 ; Ricardo's Reasoning, 225 ; Quantity Theory called in, 225 ; "The King and his New Clothes," 227 ; Debt the ignored Result, 228 ; New Zealand's Case, 230 ; Interest often makes the Cheapest Market the Dearest, 231 ; The Case would be different if Interest did not exist, 231 ; Employment of Local Labour the main Factor, 232 ; The Case of John and Bill, 232 ; An absurd Waste of Power, 234 ; Reciprocity of Trade, 235 ; Balance of Trade and Financial Balance, 235 ; Defective Balance-sheets and still more Defective Conclusions, 236 ; "Confusions arising from the Ignorance of the Part Money plays in Business," 238 ; Merchandise Wealth and Money Wealth, 239 ; The real Balance to be considered is the Financial Balance, 241 ; Effect of Currency Reform on Balance, 241 ; Balances of different Countries, 243 ; Method of International Settlements, 243 ; Gold at a Premium, 244 ; Favourable Effect of Gold Premium on Balance, 245 ; Effect of the Gold Premium in New Zealand, 246 ; International Price Relations under a Scientific Currency, 247 ; Restriction of Paper Circulation only meant in a Relative Sense, 250 ; Our Colonies have the Power to make such far-reaching Changes, 251 ; Paper Money Countries make all possible Efforts to come back to a Gold Currency, 251 ; A Great Crime, 251 ; Who are the Men whose Judgment usually prevails in such Matters ? 254 ; The Routine Groove, 255 ; A dangerous Habit, 256.

CHAPTER V

FREE TRADE OR PROTECTION : Favourable Balance Primary Object, 257 ; Narrowing down the Subject, 258 ; Certainty of Reciprocity, 259 ; Arguments on the Side of Free Trade, 260 ; Employment the First Question, 261 ; The Farmer's Case, 262 ; The Case of the American Secessionists, 262 ; The Case of New Zealand, 264 ; Increase of Land Values, 266 ; Independence, 266 ; The Case of Britain, 267 ; England's Landed Aristocracy with its Rent-raising Corn Tolls, 267 ; The Dear Loaf, 268 ; Cobden's Policy of 1846 under the totally changed Conditions of 1900, 268 ; "An American View of the British Industrial Situation," 269 ; Bounties are preferable to Protective Duties, 270 ; Duties, or Part of them, are often paid by the Foreign Importer, 270 ; Saving by Increase of Turnover, 271 ; Selling with Loss to kill Competition, 273 ; Protection handicaps Foreign Trade, 274 ; "Self-

Sufficiency," 274 ; The World's Workshop, 274 ; Applied to New Zealand, 275 ; Protection does not raise Wages, 276 ; Free Trade Statistics, 277 ; Free Traders forget Railroads, Steam Engines, etc., 278 ; Protection enables Domestic Producers to combine, 280 ; Exploitation by a Home Syndicate is preferable to that by a Foreign One, 281 ; If Free Trade is beneficial Nationally why not Internationally? 282 ; Federation, 283 ; Protection forces Hot-house Plants, 284 ; The Waste of Protection, 285 ; Protection not always Best, 285 ; Imperial Zollverein, 286 ; An Imperial Protective Tariff, 287 ; The Position of the Colonies, 287 ; Reciprocity required, 288 ; Henry George's Robinson parable, 288 ; The Parable modernised, 291.

CHAPTER VI

BANKING : State or Private Banks, 293 ; The Danger of Inflation, 293 ; Security in times of War against Seizures, 294 ; Fear of State Administration, 294 ; Banking Profits, 295 ; Exploitation of the People's Stupidity, 297 ; The Question of Security, 298 ; National Banks of the United States, 298 ; 'Two's' at 106, 299 ; Circulus Vitiosus, 299 ; Law needed to prevent the lending out of Free Deposits, 300 ; Scotch System of Banks of Issue, 302 ; Advantage of such a Law to the Community, 303 ; The People their own Bankers, 304 ; Raffeisen Bank, 305 ; State Bank and People's Banks, 305 ; Our Banks a permanent Danger, 306 ; Immediate Help, 307 ; Methods of Issue, 308 ; Currency Reform without a State Bank preferable to a State Bank without Currency Reform, 309.

CHAPTER VII

INTEREST : Interest Condemned, 310 ; Interest the Result of the Productivity inherent in Capital, 311 ; The Element of Time, 312 ; Force of Habit, 314 ; Interest is the Reward of Abstemiousness, 315 ; Capital Production will stop if no more Interest is obtainable, 315 ; The Capitalist's personal use of Wealth limited, 316 ; Accumulations rendered possible by secured Rent and Interest, 317 ; Self-consumption becomes almost infeasible, 317 ; Our Millionaires are not extravagant enough, 318 ; Millionaires and Poverty in the Union, 319 ; "Or to lie idle," 320 ; Turgot's Simile, 321 ; Interest holding back Civilisation, 321 ; With the Disappearance of Interest, these and Thousands of other great Works will be carried out, 322 ; Interest and Money Reform, 323 ; Interest and Free Trade, 324 ; Interest is in Reality the greatest Obstacle to Saving, 324 ; Interest is Tribute, 326 ; Arithmetical Proofs, 326 ; An Allegory, 327 ; Private Land Ownership the Mother of Interest, 334 ; Gold and Silver Legal Tender the Father of Interest, 336 ; Gross Interest and Interest Proper, 336 ; Wages and Interest rising and falling together, 337 ; Distinction between Net Interest, or Interest Proper, and Gross Interest, is one of the most Momentous in Practical Life, 338 ; The lower the Net Interest the higher is the Gross Interest, 340 ; Laws against Interest useless, 340.

CHAPTER VIII

CAPITAL AND CAPITALISM: Definitions of Capital, 342; Capital as Property which can procure an Income without any Work on the part of its Owner, 343; Orthodox Definition confusing, 344; Throws together Tools and Tribute Claims, 344; Perfection or Ownership of Tools, 345; Capitalism, 346; Curses Capital as the worst Enemy of Labour, 347; Tribute Claim Capital constitutes the Bulk of the World's Capital, 347; The Social Problem, 349; Want through Superabundance, 350; The Solution, 351; Truth at the Bottom of Mercantilism and the Wage Fund Bogey, of the Over-population and Over-production Swindle, 352; Money, not Land, the Principal Villain, 353; Financial Panic, 355; Money Reform is the Thin End of the Wedge, 355; Currency Reform would give a strong Helping Hand to Land Reform, 357; The Market Rate of Interest is bound to fall much faster in a Country with Nationalised Land, 358; The Interest Rate has been gradually going down, 360; Slave Values and Land Values, 361; Historic Precedents, 362; Outside Investments in Tribute Capital, 363; Immense Free Capital, 363; One-sided Growth of Wealth, 364; The Problem cannot be fully faced unless we enter by the Currency Gate, 365; Profit, 373; Risk, 374; The Wage System, 377; The Employers' Exhortations, 377; Wages and Purchasing Power, 377; Our Labour Laws, 380; Poison against Poison, 380; What is bad in Principle is good in Practice, 381; War and Business, 382; Temperance, 383; Prison Reform, 385; Waste in Distribution, 386; Other Waste of all Kinds, 386; New Inventions, 387; Effects of the Reform, 388; False Friends, 388; The Worker's real Interest, 389; Two Fundamental Truths underlying the Land and the Currency Questions, 390; An easy Matter for Labour to free itself from all Debts, 391; Deferred Consumption, 392; A Precedent, 392; An Immigrant from another Planet, 393; The Bull Game, 394; Gold and Land Monopoly, 395; The Conflict is no more between Employer and Employed, or between Wealth and Poverty, but between Monopoly and Freedom, 396; Not Competition, but want of Openings, 396; Open the Gates, 397; The Terrible Danger, 397; Enlightened Self-interest, 398.

CHAPTER IX

EXCHANGE BANKS AND CO-OPERATION: Exchange Banks, 400; Owen's Labour Exchanges, 405; American Labour Exchanges, 406; New Zealand Labour Exchange, 408; Exchange and Mart, 409; Notes or Cheques, 412; Wage Workers and the Exchange, 415; Store-keeping added, 418; Proudhon, the French Pioneer of Exchange Banks, 418; Bonnard's Exchange Bank, 419; The Guernsey Market Hall and similar Experiments, 420; Co-operation and Exchange Bank-

ing, 420 ; Open Letter to the Chairmen of the Co-operative Wholesale Societies of England and Scotland, 421 ; The Future of Co-operation, 425 ; A Co-operative Bacon Factory on Exchange Bank Principles, 427 ; Relation between Exchange and State Currency, 432 ; The Great Calamity on Robinson's Island, 434 ; How to solve the Problem of the Unemployed, 444 ; "To-morrow," 450 ; Co-operators as Voters, 454 ; Co-operative Households or Associated Homes, 455.

CHAPTER X

DEMOCRACY : The Plea against Democracy, 458 ; The Suffrage, 463 ; Neo-Malthusianism, 463 ; Property Qualification, 464 ; Voting Systems, 465 ; Second Ballot, 465 ; Direct and Indirect Election, 466 ; The Proportional or Effective Vote, 467 ; The Proportional Vote in Tasmania, 470 ; It destroys the Power of the Caucus, 471 ; Faddists and the Proportional Vote, 472 ; It favours the Rich, 473 ; Representation of Trades, 477 ; Bye-Elections, 477 ; The "Scrutin de Liste," 477 ; Plumping, or the Multiple Vote, 478 ; The Ballot, 478 ; Imperative Mandate, 479 ; The direct Vote, or the Referendum and the Initiative, 481 ; Special Treatment of Land Laws, 482 ; Rebates of Rent, 483 ; Second Chambers, 484 ; Age Franchise for the Second Chamber, 485 ; The Executive, 486 ; Monarchy and Titles, 486 ; The Cabinet, 487 ; Elective Executives, 487.

CHAPTER XI

SOCIALISM : The Author's Evolution, 489 ; Deduction and Induction, 489 ; Power of Auto-Suggestion, 490 ; The Socialist Prison, 492 ; A Different State, 492 ; The Introduction of Socialism, 493 ; Step by Step, 494 ; The Motherland, 495 ; Revolution, 495 ; Trusts, 497 ; The People's taking Possession of the Trusts, 499 ; Precedents in the Domain of Political Union, 500 ; The Russian Empire, 500 ; The Despotism of Socialism, 501 ; Lord Gobbleland and the Communist, 502 ; John Stuart Mill's Opinion, 504 ; The Restraints of Communism would be Freedom in Comparison, 504 ; General Sameness, 506 ; Prison preferred, 506 ; The Ship of State, 507 ; Incentive to Exertion gone, 508 ; What has this Progress done for the Masses of our Population ? 508 ; The Certainty of always finding Employment, 509 ; Gain is the main Stimulant to Work, 512 ; Loafers and lazy Vagabonds, 513 ; Unpleasant Work, 514 ; Who will do the Scavenging ? 515 ; Nobody would save under Socialism, 516 ; Equal Division of Wealth, 517 ; No Confiscation, 518 ; Victorious Socialism, 519 ; Fire Insurance, 520 ; Interference with the Tax-payer, 521 ; State Monopoly and Distribution, 522 ; The Competitive System, 528 ; Communism, 530 ; The Debt to the Past, 531 ; We are not Ripe for

Socialism, 534 ; Education for Socialism, 535 ; Competitive Examinations, 536 ; Latin and Greek, 538 ; Grammar, 540 ; Evolution towards Communism, 541 ; Advice to Socialists, 542.

CHAPTER XII

CONCLUSION,	-	-	-	544
-------------	---	---	---	-----

ERRATA

Page 6, line 15, read \$11'26 for \$12'6.

Page 6, line 29, read \$46'66 for \$15'66.

Page 7, line 14, read \$24'62 for \$4'62.

Page 55, line 3, read "of" for "to."

Page 87, line 4, after "ratio," instead of full stop put comma, and add: "equivalent to the full rent for 33 years."

Page 96, line 22, after "valuation," insert "as."

Page 177, line 22, read "Scorpe" for "Sorpe."

Clue to the Economic Labyrinth

CHAPTER I

WANTED : A NEW GOSPEL

The Old Gospel

A CARAVAN trudges wearily through the hot sand of the desert. At last an oasis is reached, and all rush toward the life-giving fluid. But only a meagre quantity is found, hardly sufficient for all, and already the more vigorous travellers are making use of their strength to monopolise this supply. Weak and tired pilgrims whose strength had barely sufficed to permit their reaching the oasis despair of being able to force their way to the spring.

Fortunately the leader approaches, and his exhortations are heard. He asks the strong ones to moderate their greed, and to let their poor brethren obtain some of the water. He shows them how wrong it is for them to store away water for future use before others have as much as quenched their thirst.

Who has not heard this gospel, preached in the holy writings of all peoples, resounding from every pulpit of our churches? They are old, very old, these admonitions—as old as humanity. Our parents have heard them before us, their parents before them, and their echoes come down to us, faintly and more faintly, from the ever-receding generations of the past.

But do not let us, in pondering over these glorious teachings of the brotherhood of man, of unselfish love and devotion, of charity and benevolence, of the division of the last loaf and coat, forget to look after our caravan, which, meanwhile, has continued its march.

The desert now lies behind the pilgrims, and a wonderful valley opens before their astonished eyes. As far as they can see extends quite a forest of fruit trees bending under their precious loads, while blooming meadows crossed by lovely little rivulets invite the wanderer to a delicious rest. Sweet feathered songsters fill the balmy air with their delightful melodies. A real paradise, from which cares and troubles of any kind seem forever banished, opens its inviting arms to our footsore travellers. Nearer and nearer they approach to it; already they see the entrance of the valley, and in a few hours they expect to rest there refreshed and happy.

But, oh, how dreadful! A roaring torrent separates them from the valley; its foaming rapids interpose a seemingly impassable barrier between our poor pilgrims and the lovely paradise.

A few intrepid men throw themselves into the seething waters; but most of them perish before the eyes of their companions, who cannot succour them. Only a few hardy swimmers succeed in reaching the opposite shore. The majority cannot swim and must remain on the desert side of the stream.

By irrigating the soil they raise scanty crops, and with the help of the fruits thrown over from the other side they manage to eke out a bare living. Unfortunately, most of the fruit thus thrown fails to reach the desert bank of the stream, and that which is successfully aimed is nearly always injured in its fall. The majority of the lucky ones, however, prefer to take their ease in the paradise they have attained to, little heeding the entreating voice of the leader which is wafted to them over the stream.

Again and again it makes itself heard, that old and well-known command of charity, and more than ever since the world exists it is obeyed. A few of the successful swimmers, a Leo Tolstoy, for instance, seeing how little can, after all, be accomplished by almsgiving, renounce their enjoyments rather than monopolise them; and, at the risk of life, return to their brethren so that they may partake of poverty with them.

Good, well-meaning men they, and those also who without tiring throw fruits over, most of which are spoilt or never arrive, and are carried to the ocean by the waves of the stream. Wiser men, however, those few exceptional thinkers who spend

day and night of their lives considering whether it might not be possible to construct a bridge by which the whole caravan could be brought over into the happy valley. They are not in the least deterred by the jibes or threats of the others, even of those whom to help they strain every nerve. "A bridge over such a wide and unfathomable stream! What a Utopia! The fools had better make use of their precious time to throw us some more fruits!" Such are the shouts occasionally coming over to them from the other shore.

Humanity has arrived at the border of the desert through which it has been wandering during so many centuries. A hard and continuous fight against terrible odds has marked the different stages of the struggle so far. Where the stronger managed to secure a larger share the weaker one suffered in consequence, and the exhortations of the moral leaders again and again demanded justice, or at least charity. The religious writings of all nations, their codes of morals, are filled with such demands. Where entreaty proved without effect, threats had to help. The most terrible torments of supposititious hells, cruel inventions of human fanaticism, have been shown in prospective to the hard-hearted rich, whose entrance into heaven has been made to appear more difficult than the passage of a camel through a needle's eye.

Change of the Problem

Meanwhile, gradually, almost imperceptibly, the outlook on the march has changed. Let us listen to some of the observers.

"On the virgin soil of America's prairies 100 men, with the help of powerful machines, produce in a few months the bread required by 10,000 men during a year. The wonders obtained in industry are still more astonishing. With those intelligent beings, the modern machines, the accomplishments of three or four generations of inventors, mostly unknown, 100 men produce the clothing which 10,000 men require during two years. In well-organised coal mines 100 men extract yearly enough fuel to supply warmth for 10,000 families in a rough climate." (Kropotkin, "The Conquest of Bread."¹)

As man does not only need bread, clothing and fuel, let us

¹ Translated from the French edition.

double, yea, even treble the number of men required to cater for his wants, and we arrive at the result that less than one-tenth of the population could supply all with the necessaries of life. This accords with the calculation of others, Dr. Theodor Hertzka, for instance, the well-known Austrian sociologist, who figures out what labour will be required to produce the common necessaries of life for the 22,000,000 inhabitants of Austria ; with the result that all industries—agriculture, architecture, building, flour, sugar, coal, iron, machine building, clothing and chemical production—need 615,000 employed 11 hours per day 300 days a year to satisfy every imaginable want. But these 615,000 labourers are 12·3 per cent. of the population able to work, excluding all women and all persons under 16 years or over 50 years of age. Hence, should the 5,000,000 men instead of 615,000 be engaged in work, they would need to work only 36·9 days every year to produce everything needed for the support of the population of Austria. But should the 5,000,000 work all the year—say 300 days—each would need to work only one hour 2½ minutes per day. To produce all the luxuries in addition, these 5,000,000 would need to work only 2 hours and 12 minutes a day for only 2 months in the whole year.

A whole book could be filled with statistics proving our immense progress in the arts of production and communication. I only give at random a few items as I find them among my scraps. From an address delivered by Professor Frank Parsons in Boston : " Steam and electricity, and mechanical contrivances have multiplied the productive power of labour many-fold. A sewing machine will do the work of 12 to 15 women. A M'Kay machine enables one workman to sole 300 to 600 pairs of shoes a day ; while he could handle but 5 or 6 pairs a day by former methods. A good locomotive will pull as much as 800 horses or 8,000 men ; 4 men with the aid of machinery can plant, raise, harvest, mill, and carry to market wheat enough to supply with bread 1,000 people for a year. A girl in a cotton mill can turn out calico enough in a year to clothe 12,000 persons, more or less, depending somewhat on the size of the persons, and the number of changes of cotton they have. The total machine power of the country is equivalent to the labour of half a billion willing slaves, or an average of 20 to every human worker. On the basis of human slavery, the Athenians

built up a civilisation in which every free man might have ample leisure for culture, and civic and social life. On the grander basis of service by the power of Nature; we are building a civilisation in which all shall be truly free, and shall enjoy ample leisure for development and association with far greater means for both than the Athenians ever possessed. In Athens, in her palmiest days, there were 5 or 6 slaves for every free man; our machinery already equals 20 for every worker, and in another fifty years may equal 40, 50, 60, or more for every man; or 100, perhaps, for every family. And these splendid servitors of steel and brass are exempt from the pangs of hunger and cold, are never oppressed with weariness, lose no liberty in their servitude, and find no misery in subjection."

From *Brotherhood* of May, 1900: "Mr. Ernest H. Crosby tells of a factory he inspected where the manufacture of cheap socks was carried on. The manager showed him 400 sock-making machines. The machines run 24 hours a day, and only 50 boys are needed for all shifts; 5,000 dozen of socks are made daily. Under the old method, this work would have required about 50,000 men or women."

The thirteenth Annual Report of the National Commissioner of Labour (America), for 1898 takes up the subject of hand and machine labour, and is one of the most exhaustive documents of its kind that has ever been issued.

Herewith are given a few extracts from the Report, as showing the number of men employed, the time consumed in manufacture, and the cost of certain articles:—

Ten ploughs, which cost \$54.46 by hand labour, and on which 2 men were employed a total of 1,108 hours, cost, when made by machinery, \$7.90, and took 52 men a total of 37 hours and 28 minutes to make.

One hundred blank books cost \$219.79 when made by hand, and on them 3 men were employed a total of 1,272 hours. The same number of books made by machinery cost \$69.97, employing 20 men 245 hours.

Ruling 100 reams of paper by hand took 1 person 4,800 hours and cost \$400, while 2 persons did the work by machine in 2 hours and 45 minutes, costing only 85 cents.

One hundred pairs of men's fine boots, made by 1 person

by hand in 2,225 hours, cost \$556.24, while by machinery it took 296 hours with 140 men employed, and cost \$74.39.

One hundred pairs of women's fine shoes, made by hand by 1 workman in 1,996 hours, cost \$499.16. By machinery it would take 140 workmen a total of 173 hours, and cost \$54.65.

To make 100 dozen of brooms by hand took 9 men a total of 445 hours' time and cost \$73.19. By machinery the same work was done in a total of 295 hours' time, and cost \$47.93, with 105 hands employed.

One gross of wire-drawn brushes cost \$16.75 when made by hand, employing 12 men a total of 300 hours. By machinery the same work was done in a total of 27 hours' time, employing 25 men and costing \$3.70.

Forty gross of vegetable ivory buttons cost \$12.6, employing 6 men a total of 115 hours, while by machinery the same work was done by nine hands in a total of 14 hours, and cost \$1.68.

One thousand yards of Brussels carpet by hand cost \$270 in a total of 4,047 hours, 18 men being employed. By machinery the work was done by 81 men in a total of 509 hours, and cost \$91.25.

One thousand axle clips made by hand took 2 men a total of 666 hours' time, and cost \$233.33. By machinery it took 9 men a total of 23 hours, and cost \$4.28.

A large reduction in cost and hours of labour is exhibited in the manufacture of carriage hardware and equipments. The cost of a buggy made by hand, 6 persons being employed a total of 200 hours, was \$15.66. By machinery one can be made at a cost of \$8.09, employing 116 hands in a total of 39 hours.

One hundred men's fine coats cost by hand \$603.91, while by machinery they can be made for \$201.

Engraving a woodcut $7\frac{1}{4}$ by 9 inches by hand cost \$47.80. Made by machinery the cost was \$14.40.

Fifty dozen files cost, when made by hand, \$131. Made by machinery, the cost was \$28.

Lithographing 1,000 copies in ten colours, size 10 by 15, cost by hand \$92.87, and by machinery \$52.75.

It has been estimated by M. Chevalier (Hearne's "Plutology," pp. 170, 171) that "the labour of one American in the trans-

port of goods was as effective, in the year 1841, as the combined labour of 6,657 subjects of Montezuma." But in this year 1901 it is probably as 120,000 to one. Sir Frederick Bramwell estimates that the engine of an Atlantic liner does the work of 117,000 rowers.

It is stated that in India a good spinner will not be able to complete a hank in a day, but in Great Britain and America one man usually attends a mule containing 1,088 spindles. Each of them spins three hanks a day; thus the assisted labour of the Anglo-Saxon is to the unassisted labour of the Indian as 3,264 to 1. Mulhall estimated that the steam power in use in 1899 was equal to the energy of 55,580,000 horses.

In publishing magazines, the time for 10,000 copies has fallen from 170 to 14 hours, and the cost from \$302.50 to \$4.62. The cost of making 1,000 lbs. of bread has been reduced from \$5.59 to \$1.55, and in work-time from 28 to 8 hours. Making 500 lbs. of butter has been cut down from 125 to 12 hours, and the labour cost from \$10.66 to \$1.78. In mining 100 tons of bituminous coal, the work has been reduced from 342 hours to 188 hours within the past decade. Ploughing 1 acre of land has been reduced by machinery from 10 hours to 5 hours; manuring from 25 hours to 1 hour; digging trees takes one-twelfth of the time previously necessary, and the self-binder has reduced harvesting down to one-eighth, while the ratio in threshing is 32 to 1 of the machine. The figures given above as the cost of articles is for labour only.

Mr. Samuel Brown, President of the Industrial Association of New Zealand, stated in his address of September 25, 1899, that the proprietor of Kirkpatrick's Jam Factory, with about four boys and five machines, turns out about 3,000 jam tins in a day. In California they use a single automatic machine, about 100 feet long, which turns out 300,000 tins per day.

Leone Levy has calculated that to make by hand all the yarn spun in England by the use of the self-acting mule would take 100,000,000 men. It is reckoned that 30 men, with modern machinery, could do all the cotton spinning done in Lancashire a century and a half ago.

William Godwin Moody of Brooklyn, author of "Land and Labour in the United States," and "Our Labour Difficulties," sworn and examined before the Senate Committee on Educa-

tion and Labour, in 1885, says: "Now one girl with her loom will weave as much cloth as could 100 women in my mother's time. One man will go into the field to-day and will do the work that required from 50 to 100 men to do when I was a boy." Question. "Do you mean in agricultural pursuits?" Answer. "Yes. A single man with a reaping machine, one of the smallest capacity, with 6 or 7 feet cutting board, will go into the field and will cut and bind from 15 to 20 acres of grain in a day of ten hours. When my father went into the field with a sickle upon his arm, it took four men a full day to cut and bind a single acre, and the Scotch Agricultural Society reported, in an examination upon that matter, that it required five men for one day to cut and bind one acre of grain; but now one man will cut and bind from 15 to 20 per day; or, going beyond that, one of the improved machines will cut and thresh and sack the yield of 50 acres in a day."

In November, 1899, I read a report in the papers that the new cigarette-making machine will throw out of work 1,500 girls in Liverpool, and many more in other cities. The machine rolls from 500 to 800 cigarettes in a minute.

It is estimated that 140,000 shoe-makers can now do as much work as 2,500,000 could have done in the same time 100 years ago.

The work required to produce those wonder-working Alladin lamps, the labour-saving machines, has decreased in the same measure. The number of workers saved by planing, shaping, slotting, and milling machines alone is incalculable, and the most of the work they do could not have been done at all by file and chisel. The improvements in this department follow each other daily. My friend John Richardson, managing director of the engineering works of Robey & Co., Lincoln, showed me a little machine by which conical cog-wheels were cut at a cost of a penny a piece which formerly had cost eight shillings each. And so I might go on and on for hours.

We see, as far as productive power is concerned, that the paradise of our picture has been reached. Where this power has increased more than twenty-fold in the course of centuries there ought to be more than enough for all, and another gospel ought to take the place of that which long ages have so accustomed us to that the following admonition of an American

Fabian is quite in its place: "London boasts of her £6,000,000 in missions, etc., besides uncounted sums in private almsgiving, while New York records with pride her £1,000,000 spent in municipal charity, her £1,000,000 in organised charity, her £1,000,000 given by societies, £1,000,000 by churches, and £2,000,000 of private personal giving—£6,000,000 in all.

"Instead of exulting in the fact that she gives £6,000,000 a year 'to the poor,' New York should rather hide her head in shame that she has so many poor to give to. What sort of an economic system is this which works so badly that £6,000,000 a year will scantily serve to patch it up to keep it going? Is this peace or is it war which requires a city to expend £6,000,000 a year in the gathering up and caring for part of the crushed, the diseased, the mangled, and the disabled of its citizens?

"A really intelligent community would as soon think of boasting of its epidemics and diseases as of its expenditure for 'the poor'—would as soon vaunt itself on the length of its death list as upon the magnitude of its charities. Pompous rehearsals of the sums given 'for sweet charity' are to be sighed over rather than rejoiced in."

I add two poems by noble women who have awakened to the truth that something far better is required than mere charity:—

GOD'S WORLD.

"YE mustn't make this earth too good,"

Says Aunt Maria Jane ;

"It gives us Christian work to do

Relievin' of its pain.

"Things always has been bad down here

In this poor vale of tears ;

An' what's bin always must jest be

Thro' all our mortal years !

"I hain't no use for them new ways

You call reform ; it's sin

To try to change what's bin ordained--

The Lord to fight agin.

"Fer sorrers that the Lord has sent

To try us here below,

If patient borne, will reap reward

When we to Heaven shall go."

Clue to the Economic Labyrinth

But spite of Aunt Maria Jane,
 And good folks such as she,
 We're going right ahead to cure
 This old world's misery.

I think the Angels must be tired
 Of winging it above,
 And that they'd like to walk with us
 On earth in brother-love.

But first we've got to make it fit
 For Angel feet to tread ;
 So where the devil's brambles grow
 Let's plant God's flowers instead.

—MARY P. IRVING, in the *Social Gospel*.

WHAT IS TRUE CHARITY?

I GAVE a beggar from my little store
 Of well-earned gold. He spent the shining ore
 And came again, and yet again, still cold
 And hungry as before.

I gave a thought, and through that thought of mine
 He found himself a man, supreme, divine,
 Bold, clothed, and crowned with blessings manifold,
 And now he begs no more.

—ELLA WHEELER WILCOX.

The great problem of the twentieth century is to find out why actual wealth production, instead of keeping pace with productive power, lags more and more behind it ; why the chasm between the two becomes deeper from year to year, why it appears more unbridgable with every new advance in productive facilities. To build a bridge across this chasm is the task before us—the thought which is to clothe the beggar—the cure of this old world's misery. To implore or threaten the luckier ones, who through greater force or ability, or through more favourable circumstances, have succeeded in entering the desired paradise is an anachronism ; for a fraction of the intellect thus wasted would build the bridge that allows the meanest to enter the realm of abundance.

Citizens of a new world, while you slept the new day dawned. Up to your new work ! Cease your wailings for charity and

your threats against the rich ; begin ramming the piles of the bridge that will lead from misery to prosperity !¹

This call is meant not only for the ministers of religion, for the preachers of morals and ethics, who make a speciality of appealing to the fortunate, expecting the millennium from their sacrificing spirit. No, it is also intended for a totally different class : it is addressed to the revolutionary forces, to social democrats and anarchists ; it is addressed to all workers for reform. Here they are inciting the people against the employers of labour, or against landlords, or against plutocracy, or against the organisers of trusts, etc. Leave these men alone ; let them eat their fill—do not even envy them ; but use your whole time and power to reform the conditions which have created this sad spectacle of over-feeding in the midst of want. If you come to look a little closer you will find as noble men in their ranks as amongst yourselves. They will cease to oppose you, they will even fight on your side—many of them do so already—as soon as you prove to them that you are not their antagonists, that your victory will not take a single enjoyment from them, will even add one far beyond any they can now call their own : the feeling of unalloyed happiness, such as they cannot know under present conditions. Who can be happy, surrounded by want and misery ?

Make it clear to them that you do not demand even as much spirit of sacrifice as the preachers do, that you want to leave to the rich all they possess of labour's products, the full enjoyment of their savings. They may even add to their hoards by means of their skill and enterprise.

You only ask them to help you in the construction of the bridge so that others, too, may get a chance of gathering their share of the still untouched fruits.² Or at least, demand of

¹ In the chapter on "Socialism" I shall treat the question whether I have the right to call the present position of our workers a miserable one in the absolute meaning of the word "misery" ; but there cannot be the shadow of a doubt that I may speak of "relative misery" when our latent productive power supplies the standard of comparison.

² Christ's admonition to the rich man : "Go and sell that thou hast and give to the poor" is still preached by some sincere social reformers of our time ; though the same men would never advise a soldier to throw away his gun and fight without arms. To make any headway with the reform work in our days, the sinews of war are more necessary than ever, and far from

them what Carlyle demanded of England's governing class "Anti-Corn Law League asks not, Do something ; but, Cease your destructive misdoing, Do ye nothing. . . . No ; instead of working at the Ark, they say : ' We cannot get our hands rightly warm ' ; and sit obstinately burning the planks. No madder spectacle at present exhibits itself under this sun. . . . We will say mournfully, in the presence of Heaven and Earth, that we stand speechless, stupent, and know not what to say. That a class of men entitled to live sumptuously on the marrow of the earth, permitted simply, nay entreated, and as yet entreated in vain, to do nothing at all in return was never heretofore seen on the face of this planet."

The New Gospel

Let us bear no ill-will toward anybody who makes use of existing conditions to get on ; let us try to change the conditions which permit the few to prevent the progress of others. As long as the trees are full of fruit the stores accumulated by some are not in the least in our way, provided the access to the trees remains open. Our sole task must be to open the road and to grant fair-play.

This is the new gospel that is wanted. In place of the old one—exhorting, pillorying, and condemning the rich—we must proclaim the new, which attempts to break down the barrier opposing the access of all to wealth. Instead of appealing to justice and charity to obtain alms, we must create reforms that enable us to dispense with alms. But nothing can be done until we have found out the nature of the reforms required. It is useless to call for an assault of Error's battlements as long as the position of the fort is totally unknown. No orders can be issued to the man at the helm unless a correct chart shows us where to find the desired port.

Help given by Religion

But when once the path lies clear before us, the help of the old gospel's preachers will be invaluable—the help of those ex-reproaching philanthropists with making money in whatever honest way they can, and then using their means to forward reform, we ought to be glad to see them acquire more room to their elbows for the good work. (See more on this subject at the close of next chapter.)

cellent men and women who know how to approach the hearts of the people, backing their appeals by arguments of a transcendental order. As to the nature of these arguments, I should have much to say if it were not so far apart from the purpose of this work. I can only intimate my belief that the men of the churches leave unused the best weapon offering to their hands in daily increasing efficiency. I speak of Psychic Science or Occultism, not to be confounded with the ordinary Séance spiritism, from which it is as far apart as Astronomy is from Astrology, or Chemistry from Alchemy. As the master-mind of modern Psychic Science, Dr. Karl du Prel, so well expressed it: "The teachings of ethics are left in mid air when the metaphysical feeding ground is abstracted—the belief in our continued existence after physical death. Rome's history shows how little materialism and morals can co-exist for any extended period. As long as our creeds base themselves on traditions only they cannot save the belief in immortality. Unfortunately, their best ally, Occultism, which offers them the scientific proofs of the great truth, the only kind of proofs accepted by the majority of our educated men, is spurned by them."

A people fallen into materialism is doomed. Mobocracy and Tyranny govern in turn, as the ignorant or the educated gain the mastery for a time. In the end, the latter generally keep on top, without lasting advantage for the community, as long as governors and governed are alike destitute of that higher aim which barren materialism never affords, because it cannot truly penetrate into the phenomena of life. Again, the downfall of a tyrant is no real advantage while Nihilism prevails on the opposing side. Of what benefit can the death of a Julius Cæsar be when a Brutus is a common cut-throat, who, as Cicero's letters prove, through his man of straw, Scaptius, extorted 48% interest from the town of Salamis, in Cyprus? The victory of such a man could never have checked Rome's rapid decline. Without morals there cannot be any real revival, and without transcendentalism morals are bound to deteriorate.

CHAPTER II

THE LAND

THE EARTH FOR ALL.

Thus saith the Lord : " You weary me
With prayers, and waste your own short years
Eternal Truth you cannot see
Who weep, and shed your sight in tears.

" In vain you wait and watch the skies,
No better fortune thus will fall ;
Up from your knees I bid you rise
And claim the Earth for all.

" They eat up Earth, and promise you
The Heaven of an empty shell ;
'Tis theirs to say ; 'tis yours to do ;
On pain of everlasting Hell.

" They rob, and leave you helplessly
For help of Heaven to cry and call,
Heaven did not make your misery,
The Earth was given for all.

" Behold in bonds your Mother-Earth—
The rich man's prostitute and slave ;
Your Mother-Earth, that gave you birth—
You only own her for a grave.

" And will you die like slaves, and see
That Mother left a bounden thrall ? -
Nay ; rise like men, and set her free
A heritage for all."

—GERALD MASSEY.

Bridge Building

THE introductory chapter has opened before our eyes the vista of a paradise—neither far away, in regions accessible only to the fond dreamer's eyes ; nor one of those *Fata Morgana*—

like Utopias which disappear wherever practical workers try to approach them—but it is very near, and longing humanity will easily attain to it when the required bridge is built across the river which now forbids their entrance.

No greater achievement has ever taxed human ingenuity, and thousands of brave souls are engaged in it from morn till night, following the labours of craftsmen gone before, who gave their life-blood for the cause.

None nobler than thou, my departed friend, whose mighty voice, first heard from the distant eastern shores of the Pacific, whose western waves now roll here at my feet, called me, like so many others, into the ranks of fighters for the great reform! Little can it matter that thou didst not clearly see the whole of the plan of the bridge's construction, and little didst thou care. It sufficed thee to show the place where the foundation of a main pier has to be laid, and to call together the workers with thy mighty clarion, "Progress and Poverty," like the bugle notes of the dying Roland, ranging over mountains and valleys, over seas and continents, with a wonderful perennial sound not likely to be forgotten as long as true hearts live on this earth of ours. Gladly thou didst welcome all willing to help in this great work of pier-building, even if their bridge plans did not quite coincide with thine own. History shows on hundreds of pages how often the disciple's fanaticism takes the place of the master's modest tolerance. The publican and sinner whom Jesus Christ broke bread with are burned at the stake, in His name, by men professing to be His only true followers. Henry George also found many fanatical disciples, not satisfied with the recognition of the fundamental truth taught by their great master, that the land of this globe belongs to humanity as its inalienable birthright. Not content with the great truth which overthrows the old faulty building of orthodox political economy constructed on the sand foundation of private land ownership, those disciples at once went to work to erect a new orthodoxy, excluding the most earnest co-workers because they differ from the master's teachings in details to which he himself did not by any means attach first-rate importance. I can prove this by the reproduction of a letter I received from Henry George in the earlier period of our intercourse. The letter refers to one of those points in which I always differed from him; his theory of

interest. When we compare the modesty of the propounder with the asperity with which some of his followers stand up for this theory—which to them has become a dogma—we come to realise that Henry George's ideas are not always identical with Georgism.

The letter is dated from New York, September 21, 1888:

"DEAR MR. FLURSCHEIM,—I learn through our mutual friend, Mr. Prang, that you are irritated at the manner in which I have treated your communication about interest.¹ I am sorry for this, as I have a very high opinion of you, and a very high appreciation of the work you are doing. But the difference between us in regard to interest, though it may be a matter of great theoretical importance, is a matter, at the present time, at least in the United States, of no practical importance; and I have been so intensely occupied with pressing matters that it has been impossible for me to give that attention to any theoretical matter that I am sure you would like me to give if I were to make an answer to you. As soon as I get again a little of the leisure I so much long for, and have been for such a time deprived of, I will carefully consider your propositions and make a review; but for the present every nerve is strained in the effort to push forward what is of immediate concern. I have never thought differences between men who hold common views on the most important propositions to be of much account. If we all work in our own way, the truth is certain to come uppermost at last.

"With much esteem and cordial good wishes, I am, yours
very truly,
"HENRY GEORGE."

Principles of Land Reformers

But whatever difference there may exist between Henry George's views and my own in regard to the question mentioned in this letter: the effect which the restoration of the land to the community would have on interest, and the part played by it in the social problem, or in regard to other sections of the problem, there never has remained the least doubt in my mind that no programme of social reform can have the least claim to thoroughness, can have the smallest prospect of success, unless

¹ If I remember right, he had not answered my letter,

it includes the great truth which will never again be forgotten, the truth for ever associated with my departed friend's name, the truth expressed in the words of the resolution unanimously passed by the International Congress of Land-Reformers (land-law-reformers would be the correct word, but its length has gradually caused the adoption of the shorter title) at Paris, called by Henry George, William Saunders, and myself, June 10, 1889:—

“L'assemblée considérant que le sol n'est pas le produit du travail, qu'il est la matière première ou la source d'où celui-ci tire tout ce qui est nécessaire à l'existence; considérant que le travail doit constituer la base rationnelle de la propriété; considérant que l'appropriation individuelle du sol, a pour conséquence le pauperisme, l'esclavage ou l'exploitation du travail; considérant, enfin, que cette situation sociale engendre des dangers qui finiront par rendre tout ordre impossible; déclare que la propriété individuelle du sol doit disparaître et se trouver remplacée par son appropriation au profit de tous.”

“Whereas the land is not a product of labour, but the raw material or the source from which labour draws all that is necessary to existence; whereas labour must constitute the legitimate or rational basis of property; whereas the individual appropriation of the soil entails pauperism, the enslaving or exploitation of labour; whereas, finally, this social situation causes dangers which would end by rendering all order impossible; this meeting declares that individual property in the soil must disappear and become replaced by appropriation for the benefit of all.”

It was the compromise finally agreed to by single taxers and land nationalisers, by the disciples of Collin, and the adherents of a surface-tax (*impôt métrique*) as well as by socialists.¹

By land we understand the body of our earth. Without land we cannot live, and the quantity of land is strictly limited; while the products of human labour can practically be increased without any limit, provided man has free access to land, to

¹The minutes of the Congress have been published under the title “Congrès International pour la Reforme Agricole et Sociale,” by the Librairie de “La Revue Socialiste,” 8 Rue des Martyrs, 1899; with a rectification, dated October 1, 1889; both signed by A. Toubreau, General Secretary of the Congress. (The English translation is mine.)

natural opportunities. The result of this limitation is the possibility of monopolisation. If anyone produces a chair, he cannot thereby prevent anyone else from doing the same thing, and there can be no monopolisation of chairs in the long run, because they can be produced in any quantity, so that the supply soon reaches the demand.

Monopoly Character of Land

The case is entirely different with land. Any withholding of land from the market narrows the market to that extent; and as no human labour can produce land, production cannot restore the old level between supply and demand. The terms which the land monopolists can obtain from land users depend on the extent of the monopoly. Where no other land is obtainable, these terms may be even harder than those under which the slave works for his master. This is illustrated by the answers given to Mr. Lionel Decle, of the *Daily Telegraph* Expedition from the Cape to Cairo, by a former slave whom he found in a very miserable condition. Asking the man what had happened to him, "Ah, Master," replied the man, "you see, now I am a man, a free man, and my stomach is empty."

"How is that, and why did you apply for your freedom?"

"Well, Master, the missionaries came to the Shambes gardens and told us, 'Why do you work for another man when you can work for yourself? Now, when you earn a rupee you must take half of it, or even more, to your master, while, if you were free, you would keep the whole of the rupee for yourself.' Well, Master, the missionaries talked so much that a lot of us went and asked for our freedom, and obtained it; but then our master said, 'You are no longer my slave, therefore you go away from my garden.' Our master added that if we cared to pay him ten rupees a month he would allow us to retain our house and garden. When we were slaves we always had some money to buy clothes, meat, or fish, or to get tobacco; but now all we earn hardly enables us to pay our rent, and our stomach is empty. In vain we went to the Government, and said, 'We do not want to be free any longer. Here is your paper, please write on it that we are slaves again;' but the Government answered that they could make us free, but could not make us

slaves. Now, Master, is that right? The missionaries said that when we should be free we would be able to do as we liked. We want to be slaves, and the Government say, 'No.' That is very bad, Master—very bad."

I personally observed similar conditions among the negroes of Virginia a few years after the close of the secession war.

Sometimes no terms at all may be obtainable, and death of the landless man may be the result, as has been the case with several of the victims of clearances.¹ In fact, we can just as little live without land as we can live without air, even if the monopolisation of land did not include that of the air over the land.

"I conceive it indisputable that to pass over land in a balloon at whatever height, without the owner's or occupier's license, is technically a trespass." (Sir Frederick Pollock.)

Philip Laidlaw, in an article in the *Strand Magazine* for January on "Windmills—Old and New," says an old Bohemian chronicler mentions "that before 718 all the mills in Bohemia were windmills." These machines came into general use in Western Europe about the beginning of the twelfth century. The charters granted to convents now began to include permission to erect windmills. Shortly afterwards these structures had become so common that the Pope issued a special edict, compelling them to pay tithes to the church. The question as to the ownership of the wind often raised conflicts between the land-owners and the clergy. An example is related in the annals of an old monk: "Since our monastery," he says, "had no cornmill, they resolved to build one. When the lord of the land heard of it, he did everything in his power to prevent it, saying that the wind in Zealand belonged to him, and that no one might build a mill there without his consent. The matter was therefore referred to the Bishop of Utrecht, who replied in a violent passion that no one has power over the wind in his diocese but himself and the church at Utrecht, and immediately granted full power by letters patent to the convent to build for themselves and their successors a good windmill wherever they might chose."

William A. Phillips, in "Labour, Land, and Law: a Search for

¹ See, for instance, the report of the Sutherland clearances in "Land Nationalisation," by Alfred Russel Wallace.

the Missing Wealth of the Working Poor," gives an excellent illustration of what we call property, by beginning his book with the following tale :

"It is related that a certain Eastern potentate fell into the impecunious condition common to many of his predecessors, and set his wit to work to devise a remedy. A farmer of imposts who had often aided him, in this dilemma came to his rescue. He offered him sixty thousand tomans for all the winds that should ever blow over Cashmere. The monarch at first affected to be staggered at the proposition. He was unable to find anything in precedents to warrant it, but although a believer in the doctrine that whatever is right, he was forced to admit that a monarch may introduce useful innovations. Of course, it was assumed that he was the supreme owner and disposer of all things in his dominions, not only for his own brief erratic span of life, but for all time ; and so he came to the conclusion that, as everything in the world which could be sold, there was no good reason why the winds, unstable though they might be, should be exempted, if a purchaser could be found. After a proper amount of preliminary haggling a sale was made, and the transaction legalised by all that signatures, seals, and parchment could do for it.

"Before the public had fairly got over laughing at the absurdity of this novel bargain, the owner of the wind issued a proclamation forbidding all persons in Cashmere from using his wind to turn their windmills, winnow their corn, propel their vessels, or employ it in any other manner, until they had first entered into agreements with him and obtained leases for the various localities, covenanting to pay certain amounts for the privilege. Then the laughing turned to lamentation. The monarch met the torrent of petitions and complaints by affecting to deplore the circumstance. He could not foresee, of course, all that had occurred ; but his sacred word was involved. Rulers of that type are usually very particular about their sacred word. Driven to desperation, the inhabitants contributed the amount that had been paid for the wind, and tendered it to the sovereign, so that this unheard-of transaction could be cancelled.

"The matter was not to be so easily arranged. The owner of the winds of Cashmere would not think of such a thing. He

had acquired a vested right in them. Since it had become purchasable the wind had greatly risen—in price, at least. Wind stocks were on an upward market. The owner insisted that his title was good. He did not claim it merely by his right of discovery of the commercial value of the wind, or that he had been the first to pre-empt this privilege; but he had fairly bought it from the representative of government, and declared that his title was begirt and founded on all that was sacred in law or the theory of eminent domain and supreme authority. It would be altogether unfair to ask him to surrender this valuable privilege for anything less than what it might bring him in case he should be allowed to keep it. The proposition of the people was merely a bald scheme of robbery. It was subversive of all property rights, was socialistic, agrarian, and revolutionary, and to force him to accept of a price so inadequate would strike a fatal blow at the best interests of society, and undermine the whole fabric on which the rights of property rested.

“This reasoning was, of course, entirely conclusive to the monarch, who was undoubtedly the confederate of the farmer of imposts; but as human endurance can only be stretched to certain limits, it was agreed between them that a fair price for the wind at that date would be ten times what was originally paid for it. This amount was finally raised by a long-suffering people, who merely exacted a promise from the commercial monarch that he would never sell the wind again, but permit it in God’s providence to blow over them free and unrestricted as of yore.”

How ridiculous this story appears to all of us! And yet there are millions, among them many teachers of political economy, who laugh at us when we oppose ourselves to private ownership of land, as if land were less a part of creation than the wind, and as if men could live better without it. The fact is, we might get along without the wind, but we could never live a second without the land.

The ownership of land does not only include that of the air, but also that of the sun. The *Literary Digest* says:

“Mr. Riis finds that sunlight is reckoned into the rent almost as if it were gas or electricity; a flat with one ray of sunlight costs sixpence a week more than a flat with none; a front flat ‘where the sun comes right in your face’ is seventeen shillings

a week ; a rear flat where it doesn't come in at all eleven shillings a week. In the depths of last winter Mr. Riis found a family of poor Jews paying eight shillings a week for the privilege of living under a flight of stairs in an abandoned piece of hallway, and the youngest first saw tenement daylight there."

Still quoting from Mr. Riis on tenement house life in New York, the *Literary Digest* continues :

"In one case I found, in mid-winter, tenants living in sheds built of odd boards and roof tin, and paying four shillings a week for herding with the rats."

Also the climate is included in the land title. The *London Echo* says :

"Everywhere we find the advertisers offering for sale the climate, the natural resources, the municipal advantages, the geographical convenience, the travelling facilities of the neighbourhood ; quoting them as reasons why landlords should get high prices or high rents for their sites. The 'simply perfect climate' of Tunbridge Wells and the 'bracing' air of the Essex coast ; the 'magnificent views' over sea or land ; the 'excellent train service,' nearness to railwaystation, or to a populous town affording a good market, are quoted, exactly as the Leeds auctioneer cites the nearness of the State Court Justice and the Municipal School Board Office as reasons why the landlord, like Oliver Twist, 'asks for more.'"

On the other side, a humorous land reformer praised the mosquitos of the New Jersey suburbs of New York, because without them the rent would have been too high for him.

The measure of liberty possessed by any man depends, therefore, in the first place, on his command of access to land ; the form of government only comes in the second place. A landowner in despotic Russia is a freer man than a landless journeyman in free England or America. The owner of a Turkish Vakuf (a kind of perpetual lease of government domain or trust land) is more independent than a German peasant with a few acres loaded with mortgages.

Free Trade in Land

The essential distinction between land whose stock is limited and cannot be increased at will, and the products of labour

which can be indefinitely multiplied, has become somewhat obscured in modern habits of thought, so that even many quite clear-sighted men of our time cannot see any reason why a man should not be able to obtain as full a title to a piece of land as to a pair of boots. We can easily account for this. The very fact that land can be bought in the market like boots and shoes hides its monopoly nature, and the essential difference between the two kinds of merchandise. How can we speak of land as having a monopoly character, when, as a rule, we can buy as much of this merchandise as of any other? when the same newspaper in which all kinds of merchandise are offered gives us also long lists of land for sale in all parts of the country? In this sense, it seems, we cannot persistently speak of a monopoly, except in certain cases where entail or other causes keep land out of the market, and yet we shall see farther on that the monopoly character of land is even more felt where it is freely saleable than where it is entailed for the benefit of a limited number of families.

Anyhow, it is quite certain that land reform would be much further advanced if entail were the rule instead of being the exception. The great difficulty under which land reformers have to labour is just that of establishing the dangerous effects of the monopoly where, to all appearance, land is as freely obtainable in the market as chairs and tables or any other product of human labour. They have to show that those would-be reformers who expect to destroy the monopoly nature of land by freeing it from any kind of entail are more dangerous reactionaries than the most violent Tory, the fundamental tenet of whose conservatism consists in the conservation of the land to its present owners.

Defence of the Freehold

"The desire to own a piece of land is innate in human nature." These are the words with which we can daily hear the freehold defended. "The desire to knock down or to enslave our fellow-man is innate in human nature," was once as thoroughly acknowledged by humanity as the principle just enunciated. Scalping an enemy, eating the vanquished, once formed part of the nature of the North American Indian and

the South Sea Islander respectively. We have outlived that time, as far as the reign of civilisation extends. Men have found out that they are happier all round, the strongest included, if they obey laws given by the majority, even where the force is on the side of the minority. We give to a feeble woman the same vote as to a strong man, and still prosper.

The time is at hand when we shall recognise even more clearly that the desire to own a piece of land is still more opposed to human happiness than the desire to knock down fellow-men.¹ We have already got so far as to recognise that

¹ I cannot abstain from quoting the opinion of my old friend, A. J. Ogilvy of Tasmania, on this subject, put forth in his usual concise and eloquent way: "‘But,’ we are told, ‘you forget the land hunger. Man naturally craves for the absolute ownership of the soil he tills, and without it loses half the stimulus to exertion. He wants to sit under his own vine and fig-tree.’"

"Here are three statements rolled into one. Take the last first. ‘He wants to sit under his own vine and fig-tree.’"

"True; and the result of your system of absolute ownership is that ninety-nine men out of one hundred can get no vine or fig-tree to sit under, and the hundredth finds that the vine and fig-tree under which he sits are not his but his landlord's, who charges him heavily for the privilege, and this even though he has planted the tree himself, and watered it with the sweat of his toil.

"Year by year, all over the civilised world, the ownership of the land is passing out of the hands of the occupier. One man rears the fruit, another stretches his hand and takes it. The very institution which you defend as securing to the producer the full value of his produce is the institution that compels him to part with it.

"How comes this?

"Because the unearned increment, though certain, is deferred, and falls, therefore, to him who can afford to wait, and who accordingly lies in wait.

"Sooner or later the day comes when a mortgage has to be redeemed, or death brings the property into the market, and then the man of large and independent means, who does not mind getting a low rate of interest for a while in consideration of large profits hereafter, easily outbids the working owner, who has to earn his living, and must have quick returns.

"Thus it is that not only is the rich non-occupying owner fast superseding the poorer working owner, but the large non-occupying owners are also eating up the small ones, and the tendency of the times is for the whole land of the country to pass gradually into the hands of a few enormously rich people.

"We have not got into this second stage yet out here, but we are well on into the first. And so inevitably and steadily land is coming to belong, not to him who has the best right to it, not to him who wants it most, not to him

the unconditional freehold is impossible. We have come to see that we cannot allow a few men to hold immense tracts which could form the homes of thousands of their fellow-men if these were allowed to take up land on fair terms.

People, however, are less familiar with the fact that a more extended division of properties—peasant proprietorship—with who will put it to the most productive use, or even to any use at all, but to him who can afford to give most for it for the mere purpose of squeezing other people.

"You offer the name, but you cannot confer the reality. We withhold the name, but guarantee the reality.

"For what is the land hunger?

"It is the natural craving for a permanent home, and for the fruits of our labour; and we guarantee both these; you do not.

"The natural desire of a man is for a dwelling which he can regard as his home for so long as he chooses to dwell in it; for a piece of land which he can cultivate and build upon and improve as his interest or fancy may dictate without the fear of a notice to quit, and the certainty that when he quits of his own accord he can realise the full value of his improvements at the time of his retiring.

"If you say further that all these things shall be his own, you are conferring no further privilege. You are only summing up the privileges already enumerated in a compact, sweet-sounding phrase.

"That he shall possess his home so long as he chooses to dwell in it, his land so long as he chooses to till it, this is the land hunger. But to want to own the land without using it, to leave and yet retain the ownership for the mere purpose of preventing other people from using it except on payment, this is not the land hunger at all.

"Directly a man has lost the desire to dwell in his home and till his land, and wants to go elsewhere and live on the rent, he has lost the land hunger, and retains only the ordinary desire to make money.

"Therefore, when under these circumstances we require him to give up the land, securing to him the value of his improvements, we violate no craving of his nature; we only take from him what he has ceased to value, the land; and allow him the one thing he continues to value—his money—to invest elsewhere.

"Further, it is the nature and not the extent of the occupancy that satisfies the land hunger. A home and land enough to afford employment are all that is wanted for the purpose.

"The Irishman's poor cabin is as much his home to him as the duke's palace is to him; and an acre or two satisfies the craving to be working for oneself as thoroughly as 1,000 acres would. Therefore so long as we leave a man land enough to provide him full employment, much more when we leave him enough to employ many hired servants, we may take, at a valuation, the broad acres on which he merely runs his flocks without jarring any legitimate feeling."

free-trade in land, is as inevitably leading back to concentration, as brooks and rivulets finally help to form oceans.

The best proof of this fact is supplied by the history of France, since that memorable night of August 4, 1789, overthrew feudalism and introduced a century of free-trade in land.

Peasant Proprietors

A. Toubeau, a French author best known for his advocacy of intensive agriculture in "*La Repartition Mètrique des Impôts*" (Paris, Librairie Guillaumin, 1880, 2 vols.), drew attention to some surprising statistical data regarding the division of the French soil, in a paper which first appeared in the *Philosophie Positiviste* of July and August, 1882, and later on as a reprint. Its title is "*Le Prolétariat Agricole en France depuis 1789. 'D'après les Documents Officiels.'*" Who would have believed without these official figures that only one-tenth of the French soil is owned by peasant proprietors, by men who cultivate their land with their own work? No doubt most of the members of the International Congress of Land Reformers—of which Toubeau was elected secretary—learnt this fact for the first time from his lips.

In round figures, the official "*Statistique Internationale de l'Agriculture de 1873*"—from which Toubeau took his data—gives 49 million hectares (1 hectare = $2\frac{1}{2}$ English acres) as the surface of France after deducting the area taken up by rivers and lakes. The area covered by forests, heath, swamps, grazing land, etc., amounts to about one-third of the whole = 16 million hectares. Houses and gardens take another million. Another third of 16 million hectares is leasehold property cultivated by tenants. Of the remaining third, 12 million are taken up by large properties. They represent 60,000 farms of 200 hectares on the average. This part of the soil is cultivated by labourers. For the peasant proprietor 4 million hectares are left, to which we may add a certain amount of the grazing land, of the gardens, and the house area, say 1 million hectares. We thus arrive at the stupendous fact that in the paradise of the peasant proprietor only one-tenth of the soil belongs to men who work it with their own hands. The number of these properties is 2 millions, with an average surface of $2\frac{1}{2}$ hectares. The latter

figure seems to be in contradiction with the statistical tables, which give us 14 million properties belonging to a million proprietors which, when we add the members of their families, makes the bulk of the nation land-owners. Now, one-half of these 14 million properties pay less than 5 francs land tax, and on 3 or 4 million of these the tax cannot be collected at all, either because the owners are insolvent or because the properties are so small that the expenses of collection would be greater than the amount of the tax. In fact, the Government statistician realises that a great number of these so-called proprietors are such only by name. He says: "Half of the land-owners possess only a small house with a very modest garden, sometimes an insignificant portion of an old common, or an undivided portion of a yard, open space, passage or building lot. In this way, in a great number of cases, in reality they have only the name of proprietors." Four million more pay only a land tax of from 5 to 20 francs, and therefore their holdings are so insignificant that their owners cannot make a living off their land. Toubeau then deducts the larger owners, the townpeople, etc., and thus arrives at his figure of 2 million families who subsist on their own land.

The number of $3\frac{1}{4}$ million holdings given in the official statistics shows that if Toubeau erred he did so on the right side; because, of these $3\frac{1}{4}$ millions, quite a number often belong to one proprietor, and $1\frac{1}{2}$ million of them are worked by tenants, while the balance of 2 million includes the large properties worked by labourers. Anyhow, the number of peasant proprietors does not affect the quantity of land owned by them, which—as Toubeau shows—is not over one-tenth of the French soil, and here we have to consider that a man cannot be called a proprietor in the full sense of the word if a great part of his property is mortgaged, and thus practically belongs to the mortgagee. Under the French system of an equal division of inheritances the partition of the small properties is continually progressing. If no immediate partition of the land takes place one of the children takes over the land, while the others take the mortgage for their share, which then is sold to outsiders. This only means deferring the partition in many cases where land has finally to be sold to satisfy the mortgagee. If the small properties get thus subdivided through inheritance, the

same cause has a tendency toward increasing the large properties. Rich people are in the habit of leaving wills, and for one case where such a will divides a large real estate, because there are not enough other assets to satisfy the other heirs, there may be ten where small properties which come into the market are bought by some rich man to enlarge his neighbouring domain.

Concentration of Properties

The formation of large estates is the inevitable result of free trade in land, experienced everywhere since the times of old Rome, when Plinius found in large landed properties the cause of Italy's ruin.

Thus in France, in the reputed paradise of the peasant proprietor, the number of holdings worked by paid hands or by tenants almost equals those of the peasant proprietors. And the proportion is likely to become more unfavourable from year to year, through division by inheritance and increase of mortgages.¹

¹ The following verses from *Land and Labour*, the excellent organ of the English Land Nationalisation Society, illustrate in a happy vein the chances the average peasant has, under the present free trade in land system, of securing enough land to make a bare living on :—

THREE ACRES AND A COW.

“ I hear thee speak of a bit o' land,
And a cow for every labouring hand ;
Tell me, dear mother, where is that shore,
Where I shall find it and work no more ?
Is it at home this promised ground,
Where the acres three and a cow are found ?
Is it where pheasants and partridges breed ?
Or in fields where the farmer is sowing his seed ?
Is it on the moors so wild and grand
I shall find this bit of arable land ? ”

“ Not there ! not there, my Giles ! ”

“ Eye hath not seen that fair land, my child,
Ear hath but heard an echo wild—
The nightmare of an excited brain,
That dreamers have like Chamberlain.

Toubeau's opinion that actually the peasants owned more land before the French Revolution than they do in our time is justified by a passage I find in H. Taine's "*Les Origines de la France Contemporaine. L'ancien Régime*," p. 453: "Vers 1760 un quart du sol, dit-on, avait déjà passé aux mains des travailleurs agricoles." ("Towards 1760, it is said that one quarter of the soil had already passed into the hands of the agricultural workers.")

On the preceding page Taine describes how many domains pass into the hands of merchants, lawyers, rich townpeople; a process also going on in our time wherever land can be freely bought in the market. The reason is obvious. Land is indestructible, whereas the products of labour are more or less shortlived. Land cannot be carried away by thieves like most of the things produced by man; while almost all products of human labour decrease in value through the lapse of time, unless new labour is added, the value of land, as a rule, increases. Fallow land becomes richer in chemical components, or trees yielding fuel and timber grow spontaneously. Anyhow, its price rises under normal conditions through the greater demand that follows the growth of population and wealth.¹

Far away, beyond the ken
Of sober, practical business men;
Far away beyond the sight
Of men whose heads are screwed on right;
Where castles in the air do stand,
Behold the cow and the bit o' land!
'Tis there! 'tis there, my Giles!"

¹ "It is a favourite dogma of some reformers that all the evils of the present day would be got rid of by what they term 'free trade in land.' They seem to think that if all obstacles to the sale and purchase of land were abolished, if entails of all kinds were forbidden, and the conveyance of land made as cheap and expeditious as it might easily be, the obstacle that now exists to the growth of a body of peasant proprietors would be got rid of. This notion appears to me to be one of the greatest of all delusions. The real obstacle to peasant proprietorship or small yeoman farmers in this country is the land hunger of the rich, who are constantly seeking to extend their possessions, partly because land is considered the securest of all investments, and which, though paying a small average interest, affords many chances of great profits, but mainly on account of the political power, the exercise of authority, and widespread social influence it carries with it. The number of individuals of great wealth in this country is enormous, and

The very reverse takes place with most products of human labour. Independent of the destructive effects of time on them, the price at which their equivalent can be produced falls continually owing to our progress in the arts. It is to be expected that under such conditions the rich and knowing investors give the preference to land, and this raises still more its selling price. In this way the rate of interest at which rent is capitalised into the selling price of land falls so low, the selling price becomes so high that the worker who needs land prefers to rent it, or is forced to do so, as he has not got the means to buy. The little capital he possesses is wanted in his business, and anyhow, cannot be invested at the low rate of interest with which the rich landowner is contented. Or, if he buys, and borrows part of the purchase money on a mortgage, usually the rate of interest of this mortgage is so much higher than the rate yielded by the land that a two-third mortgage generally swallows the whole of the rental value. This explains how, even in countries like France, where only a hundred years ago the Revolution threw a great part of the feudal property into the market, the number of tenants and labourers who work on other people's land by far exceeds that of the men who work their own freeholds. It is even more astonishing that the same fact obtains in the United States, a country most of whose land—within the memory of the living generation—was thrown open practically free of cost to the hardy pioneers.

According to the census of 1880, 26% of the farmers were tenants. In 1890 the percentage rose to 34%. The census of 1900 is not accessible yet, while I am writing this, but will undoubtedly show a further increase. Of the families occupying their own farms, as many as 43% lived on encumbered farms in 1890. The average percentage of encumbrance was 35.55%. Of families occupying homes in towns and cities, only 38.9% owned their homes, and of these 75% were encumbered.

owing to the diminution of the more reckless forms of extravagance, many of them live far below their incomes, and employ the surplus in extending their estates. The probabilities are that men of this stamp are increasing, and will increase, and the system of free trade in land would serve chiefly to afford them the means of an unlimited gratification of their great passion." ("Studies Scientific and Social," by Alfred Russel Wallace.)

The average rate of interest of farm mortgages was 7·07%, on homes 6·23%.

These figures prove that the same process goes on in the Transatlantic Republic, as in every part of the world. Everywhere the land is alienated more and more from the men who work it; everywhere the process of concentration in the possession of the minority goes on rapidly, whether it be in the form of direct ownership or mortgage. According to Alfred Russel Wallace, Mr. Arthur Arnold has ascertained that the 525 members of the peerage own 1,593 separate estates, comprising an area of more than 15,000,000 acres; or, allowing for roads, rivers, towns, and public property, about one-third of the whole land of the United Kingdom. Fourteen landlords in Scotland possess over 100,000 acres each, and one of them, the Duke of Sutherland, owns 1,176,454 acres, almost the entire county, whose area is only 1,197,846 acres.

Macaulay, in Chapter III. of his "History of England," where he treats of the yeomanry, says: "If we may trust the best statistical writers of that age (1685), not less than a hundred and sixty thousand proprietors, who, with their families, must have made up more than a seventh of the whole population, derived their subsistence from little freehold estates. The average income of these small land-holders—an income made up of rent, profits, and wages—was estimated at between 60 and 70 pounds a-year. It was computed that the number of persons who tilled their own land was greater than the number of those who farmed the land of others. I have taken Davenant's statement, which is a little lower than King's."

What a change for the worse these figures present! Considering the difference in the value of money, we must take at least £100 a-year as the equivalent of the £60 to £70 of 200 years ago. Now, we certainly cannot go below holdings of 5 acres when we want to find men who can make an income of £100 from the land, and the total number of holdings above 5 acres, and not exceeding 50 acres, in 1889, was for all England and Wales 203,861. The Financial Reform Almanac, from which I take these figures, does not give the number of these holdings which are freeholds; but to anyone knowing England, it is evident that only a very small proportion of this land is owned by the parties who cultivate it. On the other hand,

Macaulay may have included holdings above 50 acres. Erring largely on the right side by equalising the two figures, and compensating the two causes of error, we arrive at the conclusion that, in spite of an eight-fold increase of population, the number of people who make a living on their own land has not increased, while it ought to be eight times greater. Where, 200 years ago, "the number of persons who tilled their own land was greater than the number of those who farmed the land of others," it is notorious that tenant farming is the rule in the England of 1900, and a man's tilling his own land has become such a rare thing that it plays a very insignificant part in the English corn supply.

Coming to one of the newest countries, to New Zealand, we find that the Year Book of 1900 gives the number of occupied acres for 1899-1900 at 34,422,653, of which 26,161,068 were in 3,521 holdings above 1,000 acres.

As in many cases one man owns several holdings, the number of owners evidently is even smaller. We may safely say that one-seventieth of the people own three-quarters of the land, or about 800 men own 60%. But even this does not give the full extent of the lugubrious picture. The total of mortgages registered in the whole country, March 31, 1899, was £33,000,00, which is about 40% of the unimproved value of the land. The average interest rate was 5·3%. Proportionately, more of this debt has evidently been incurred by the smaller farmers, and so we may say that certainly not over one-third of their 30%, *i.e.*, only 10% of the land remains unencumbered in the hands of the working masses. No further comment is needed.

In those countries where the remnants of feudalism are still in existence, the plutocrat gradually takes the place of the noble, and is usually a harsher master. He has not been connected by a family tradition of centuries with the land and its occupiers; to him his land is nothing but the equivalent of other investments which he gave up for it. Its rent replaces the interest which these investments yielded, and he expects this rent to fall in somewhat after the quasi-automatic process in which his coupons were cut and cashed before he exchanged the bonds to which they were attached for the land he bought with their proceed. As he never cared who had finally to pay

the interest represented by these coupons, so the tenant of his land to him is merely a rent-paying machine, to be exchanged for another as soon as it does not regularly perform its functions.

Power the Basis of Land Titles

Intentionally, I have not brought forward the stock argument of land reformers against private property in land, based on its not being a product of human labour, but the creation of God, who destined it for all, and not for some human beings. In my mind, the argument has some flaws, and—what is more important—it is not needed. Iron, coal, building stone—in fact, all primeval matter—is created by God for all men, and yet not even the most radical land reformer objects to their appropriation by individuals under certain conditions.

It has also been said that if God has given the land to humanity as a whole, a nation has just as little right to appropriate it as an individual. Fortunately, there is not the least need for this line of argumentation. Expediency, armed with the necessary power, has always been the only determining factor in man's relations to land, and probably always will be. Bodies of men powerful enough to defend the land they occupy against outsiders, be they called tribes, states, or nations, always have claimed, and always will claim, the right of control over the land they have possessed themselves of, and have made light of the rights which the rest of humanity might claim. As power, exercised towards outsiders, was the foundation of the nation's property rights over the land it occupied, so power exercised towards individuals inside the community's bounds proved the basis of the tenure under which the community's land was, and is, held by the individuals of whom it is composed.

This power may be wielded by different parties ; it may be exercised by a despot, or an oligarchy or a democracy ; its effect is to coerce a certain number of individuals. A majority in a republic is more despotic than the Czar of Russia or the Sultan of Turkey, because the autocrat may find himself effectually opposed by the masses of the nation ; while the very fact of majority rule presupposes an insufficient power of resistance on the part of the minority.

Despotism better than Anarchy

Nor is this undesirable, for the worst government is better than no government, than anarchy, which practically, instead of doing away with the reign of power, only substitutes a number of power centres detrimentally opposing each other. However reactionaries and liberals may differ in regard to their preferences for the British constitution or the systems of government obtaining in Russia or India, they will cordially agree that the centralisation of power in either of these countries has been an immense progress over the anarchy of the past. Nobody in the British Isles will look back with longing regret to the times when Mercia fought with Wessex or Northumbria ; or when the Macdonalds, Camerons, Campbells, Macintoshes, Macleans were waging wars of extermination against each other, or when the feuds of the Pentarchy were rending Ireland. Whatever accusations may be brought against the despotism of the Russian autocrat, nobody in his vast empire will wish a return of that terrible time when the innumerable little despots, scattered over the area now occupied by the Russian Empire, invaded each other's territory, burnt the crops, and drove away the cattle of the subject, if they did not kill him or carry him off as a slave. The Czar may be a hard despot, but one despot is better than a hundred who war with each other, and life and property certainly enjoy a security in the present Russian Empire such as this section of God's earth never dreamed of in olden times. The British yoke in India may weigh heavily on the poor Ryot, but at least he can cultivate his field in security, free from the continuous inroads of neighbouring chieftains.

But wherever the anarchist's strange theories may find application, in no direction are they so impossible as where the division of the land comes into play. It may be inconvenient to find a hundred different weights and measures or systems of currency in the same country, because no central authority can procure general acceptance for one special system. It may prove disastrous to have club law take the place of a legally instituted police ; but it is absolutely unthinkable to leave land occupation to the accident of anarchism, to declare the land of the nation free to anybody who wants to occupy it, subject to

the equal freedom of everybody else. The peasant who grows a crop will do so only where he can hope to gather the harvest. Where anyone who pleases can come and occupy land between sowing and harvest time, all will starve because nobody will work where there is no surety of reaping. Improvements will not be made where their enjoyment is not guaranteed to the improver. Roads are only possible where agreements are made and kept which prevent the encroachment of the plough, and where those who want the road will come to some terms as to its location. But such agreements are impossible where a single landholder can hold out and refuse his sanction, relying on the absence of any law coercing him into submission. Some kind of legal tenure of the land will be found indispensable, and under any condition will be preferable to no tenure.

Equal Division impossible

Legal tenure may, however, be unjust and inequitable tenure, and certainly cannot exclude demands for justice and equity. In regard to land ownership, the idea we must strive for is the attainment of the greatest good for the greatest number. That tenure of land which accomplishes this end must be the best, and ought to be striven for. The supreme question, therefore, will be which system of land tenure is most likely to result in the greatest good for the greatest number. From the facts produced, we have already learned that an equal division of land among the people, with the full right for each to do with his share what he pleases, has proved a failure; for though free trade in land has nowhere in the world departed from equal possession, the result would not have materially differed if there had been such a departure. The same causes would still have produced the same effects; and though the ultimate result, the concentration of ownership in the hands of a minority, might have been put off a little farther, there could be no final escape from it. The difference in the size of families, in the ability and disposition of land-owners, would have worked in the same direction in which they are working wherever land can be freely sold and bought. I leave out of sight the difficulties inherent in the different value of the land, because these might perhaps be got over by an adjustment of quantity

according to quality. Anyhow, such an adjustment could only be made at the outset, and would not prevent new differences of value from arising through causes independent of the owners' personal exertions, such as the massing of population at given points, the discovery of valuable deposits, the construction of public highways, political causes, etc.

The objection might be made that an equal division of land need not include the right of selling this land or even mortgaging its proceeds, its rental income, and that the inequality resulting from the different size of families or differences in value due to the causes just mentioned might be got over by periodical redivisions. We can, however, see at the first glance that such an expedient, though it might be applicable in a state of barbarism, would not be practicable in a highly civilised community. A nomadic people could easily change the grazing area allotted to each family without thereby committing an injustice, for in case of a redivision, their only improvement, the tent or hut, would be removable to the new allotment. In a higher state of culture, however, such a redivision generally involves a spoliation of improvements due to the work of the occupier, which grows more serious with every progress in the arts of production and distribution.

What destroyed the Mark

This fact was mostly responsible for the gradual disappearance of the Mark, more so even than the violence and ruse of the powerful squatters, as in colonial language we should call the chiefs who—with the slaves they had made in war—had gradually occupied waste land within or in the neighbourhood of the Mark, and thus had grown in wealth and power. The same agency will also dig the grave of the Russian Mir, unless a reform in the direction indicated farther on can be secured.

Separating from a farmer's estate a field which his assiduous labour has changed from a desert into a garden—through irrigation, drainage, manuring, crushing and removal of stones, and planting of fruit-trees—might perhaps be rendered more tolerable by forcing the new possessor benefiting by such improvements to compensate the former owner; but what could be done where a large factory has been erected on the land?

Cutting off a piece of this factory might not only destroy the value of the remainder, but the possession of this piece would probably be absolutely useless to the new owner.

The land requirements of the different trades vary. The artist may prefer a crag on the sea-shore—where his muse obtains its inspiration from the roar of the mighty waves—to the broad acres he inherited, and which he cannot sell to others who would be happy with the fertile land. It is true we may give him the right of letting his land and no doubt, in this way the most perfect adjustment of land occupation might be arrived at, as every man would easily find just the quantity and quality of land best adapted to his wants. Nothing would be in the way of our artist's spending the rental income derived from his land on his favourite cliff; or would prevent the manufacturer from extending his buildings on leased ground. This ground might be obtained by him at the outskirts of a populous city, where he can find plenty of skilled hands and a convenient market for his products; while his own patrimonial acres—which chance located far away from the hives of industry—are let to a farmer. Indubitably, all this could be done by setting to work a most cumbersome apparatus. The mere labour involved in the periodical redivisions would be so immense and complicated that no practical statesman would for one single moment entertain the plan. But even if this difficulty could be got over, what a waste of power would be required by the work of leasing and renting! What a rare field of exploitation the system would offer to unscrupulous middlemen! Our innocent and inexperienced artist would be bamboozled into accepting a mere pittance for his valuable land; while the owner of the cliff, knowing the other's predilection for the place, might extort a rack rent from him. We should finally be forced to have the letting of the land attended to by the public authorities, who also would adjust rents according to their market value, so that the ignorant could not be despoiled by the cunning.

Why not make the Community the Owner?

But why not, in this case, also do away with the difficulty or even impossibility of adjusting the division of freeholds? Why

not make the community the only freeholder, the trustee of the citizens as a whole, that lets the land for the trusters, and then divides the rental income amongst them? When a number of brothers inherit a piece of land, they do not first divide the land and then proceed to a general higgling amongst each other, where those who do not want to use the land try to get the best rental they can for their special piece from those who want to occupy the land. Those who do not want the land might be in as bad a fix as those who do. A combine among the latter might despoil the others; or some sly owners might draw out the negotiations for their special pieces, until some of the brothers who want to farm the land, after having taken the surrounding plots, could not get along without these special areas, and would be forced to pay a rack rent for them. No, the only correct policy of the brothers would be to put the land into the hands of trustees, who, as it cannot be sold, let it to the best advantage, and then divide the rent equally among the owners of the land. If any of them want to use the land they will put in their bid, and will rent it if the amount of the rent leaves them a sufficient margin. If it does not, if an outsider pays more rent, even this will result to their benefit, because their share in the rental increases correspondingly. In fact, they only allowed the land to come into other hands because they found that their share in the rent could get them other land to better advantage.

In the same way, a large section of land reformers have come to the conclusion that the only feasible way of giving to all citizens an equal right in the nation's land is to have its title vested in the community; and to demand from each land user a contribution to the common fund proportioned to the advantage realised by him out of the common inheritance.

Difference between the Lease System and that of Mark or Mir

We see at once how different such a system is from those of the Mark and Mir with their periodical redivisions. The latter systems halt on the road from entire communism to individualism, but still retain the great vice inherent in communism, as well as in its opposite pole, extreme individualism: the con-

fiscation of the worker's product for the benefit of the drone. The system of common ownership with individual occupation and production on land rented from the community, with full security for the improvements made by the occupier, eliminates the objectionable feature of the historic institution without incurring the danger inherent in the extension of individualism to the ownership of the land itself.

Distribute the National Rental for Pensions or for the Relief of Taxation

The use made by the community of the rent has nothing to do with the principle. We know that almost all land-reformers do not purpose a division of the fund thus collected among the citizens, but prefer to use the fund for public necessities, instead of—according to the present methods—raising the means for these by taxation, which, however, in no way invalidates the principle. For reasons I shall at once proceed to give, I propose to distribute the income obtained from the land—after the land has once been acquired and paid for—among the people, in the shape of ample old age and invalidism pensions for all citizens without any exception; and to raise the cost of all other public expenditure on the old system, anyhow until the rental income has grown large enough to provide for both purposes. I agree that there can be no more just system of taxation than that which raises the revenue from the public domain, and yet expediency may recommend my proposal.

The power of vested interests is so strong that land restoration will never be carried unless we succeed in kindling the enthusiasm of a considerable section of the people, and I maintain that the mere prospect of a relief from taxation will never accomplish this end.

Let us take as an example the two countries where, from entirely different causes, the prospects of land restoration seem brightest: Great Britain and one of her youngest children, New Zealand. Great Britain, because it is the one country in the world where the heaviest load is found resting on the weakest support, where the most iniquitous division of the land is as yet tolerated by one of the most democratic peoples of the world. It can only be a question of time, and not a long time at that, when this

democracy will be sufficiently enlightened as to its rights and powers to put an end for ever to the abuses of many centuries.

New Zealand, on the other hand, may fairly be regarded, socially, as the most advanced colony of the British or any other empire; and already its land laws have progressed within the very confines of land restoration. The Land for Settlements Act of 1892 authorises the purchase of private lands by the Government, and the Act of 1894 even gives the power of compulsory purchase where the Government cannot agree with the owner as to price. The extension of this law so as to include town property would practically supply the full powers the State requires for the gradual introduction of land nationalisation. The systems of tenure of crown land at present in existence would equally necessitate only a few slight changes to make them almost perfect. The perpetual lease system could be maintained, but the rent would have to undergo periodical revaluations. Such revaluations are practically in force under another system of tenure allowed by the Act, which would only have to be divested of the clause that entitles the tenant to acquire the fee simple of the land. I shall yet have to say a few words on this subject farther on.

In Great Britain, the majority of the people are practically exempt from taxation, with the exception of rates; and these, as I shall show when the question of ground rent is discussed, are in effect already borne by the land. The income tax, as in New Zealand, only falls on a small minority of the nation, and a minority also pays the bulk of stamp taxation. Leaving aside the taxes and duties on alcoholic drinks and tobacco—voluntary taxes which nobody need pay unless he puts himself under the government of King Alcohol and Prince Nicotine—the majority of the English people do not pay over a shilling a head per year. I need not point out how small the seduction offered by the prospect of shifting the shilling on to the land must be for the average proletarian.

Making the same exception in regard to drink and tobacco, as well as rates for New Zealand, the load is not heavier; for all other customs and taxes paid here by the majority of the people hardly exceed a penny a day per head, and this daily penny has no more significance for the New Zealand proletarian

than the yearly shilling has for his English colleague. The hope of saving a penny a day will certainly not make him a Single-Taxer; especially when he considers that part of this penny is sacrificed for the protection of local industries, and may be more than brought back by the chance of employment thus secured.¹

Now let us see what we could do in the way of old age and invalidism pensions if the rent of the land were spent for this purpose. The New Zealand statistics of 1896 of the number of people over 60 years living at one and the same time give us the figure 53·4 in 1,000. As we have to add the cases of invalidism before the age of 60, we may increase the ratio to 60. But, of course, New Zealand could not wish to become the refuge of all the old people in the world. The pensions could only be the equivalent of work done and money spent in the colony by citizens during a certain number of years, say thirty. This would considerably reduce the number of pensioners; let us say to 40, to remain on the right side.

The rental income of the State at the present valuation would not be less than £4,000,000 a-year, while 40 pensioners per 1,000 inhabitants would create a pension demand for 30,000 people, excluding Maoris, as long as their land is not included in the assets of the State. £1 a week would demand a little over a million and a half of the 4 million income, and this would leave enough for the interest service of the bonds issued in payment of the land, of which more farther on, where we shall

¹ The number of people paying an income tax in New Zealand is only 5,600. The stamp tax does not affect the majority of the people to any noticeable extent; but let us put one quarter of the £860,000 of 1899 to their charge. The land tax does not count for them either, as there is a £500 exemption, and the majority does not reach this limit. What the citizen spends for the use of the railways, as little as gas and water rates, or tramway fares, or money spent for the purchase of goods, can count as a tax. Of the custom duties, amounting to £2,042,002 in 1899, we have to deduct £825,408 for alcoholic liquors, for tobacco in its different forms, for opium, and for parcels post, which, strangely enough, figures under this heading. The balance of £1,216,596, to which we have to add £215,000 for the stamp tax, gives us a charge of £1 16s. per head of population per year, or about 1½ penny a day. If we include alcohol and tobacco we reach twopence a day, excise duties included.

also see how the increase of the rental income through growth in wealth and population can in a very short period redeem the debt incurred. By the time when this growth of population through births and immigration will have increased the outlay for pensions, the debt will be paid back, and the full amount of the rental income will be available for pensions. Taking into account the correspondingly great increase of rent due to the effects of reform, a gradual rise of the pensions to £2 a week, or £4 for a married couple at the pension age, would be possible, unless part of the income were ear-marked for other public purposes.

I cannot find the age figures of Great Britain, and substitute those of a country with about the same rates of increase and emigration—of Germany in 1880, which are 78 people of 60 years per 1,000 of population. This would give about 3,000,000 pensioners, dividing a rental income of £150,000,000. Though only £50 a head are thus obtained, or £100 for a married couple above the pension age—the saving in poor rates and the exclusion of certain immigrants balancing previous invalidism—we must consider that the relatively lower wages and standard of comfort tend to equalise the effect, and would thus give the same incitement to fight for the reform as the higher amount of the Pacific colony.

The effect this reform would have on the spirit of the community can only be guessed at. Once the spectre of want and old age is banished from the hearth, the present hard struggle for life will lose most of its virulence. Men will be less grasping and will retire earlier from money earning, and will thus give a chance to other men who take their places. The whole moral constitution of the people would gradually undergo a radical change.

The mere prospect of such a reform through land restoration would kindle the popular enthusiasm to an extent which any possible economy in taxation could never produce. There can be no doubt as to the greater attractiveness of such a proposal, and the different effect it would have regarding the average voter, to whom the Single Taxer offers the immense sum of a penny a-day per individual in one country, and a shilling a-year in the other.

And let us not forget that the very first point to be gained

must be the conversion of the man of the people to the principle of land restoration. The ways and means of obtaining the land for the people—which I shall now proceed to discuss—are only a secondary consideration.

How to limit Land Accumulations

To satisfy those who, in spite of the facts and arguments against private land ownership, insist on maintaining it, I shall include proposals towards a limitation of land accumulations in single hands. The dangers to the commonwealth which accrue from the increase of direct or indirect (mortgages) land possession in the hands of the few can be met in the following ways :—

1. By means of limitation of the right of inheritance.
2. By limitations of the amount of land which one family may own.
3. By a taxation of land values.
4. By an abrogation of private land ownership.

1. Limitation of the Right of Inheritance

The right of bequeathing property is, next to that of owning it, a great inducement to produce and save wealth. As such, it has been recognised by every civilised community, and a limitation can only be desirable where not only the end in view is not attained, but where the opposite effect is produced. As we progress in our work we shall see that private property in land is principally responsible for the restriction of the production and saving of wealth, and that this effect increases with the size of the properties. Under such conditions an unlimited right of bequest for such properties, which would result in their further extension, would counteract the very purpose for which the right of bequest is granted. The State, therefore, has not only the right—the limits of its rights are only those of its power—but the duty of limiting bequests.

The Colins School of land reformers (Agathon de Potter, in Brussels, Colins' best known disciple, still keeps up his master's

standard) proposes an inheritance tax of 25% wherever there are no direct heirs, and complete confiscation where the defunct leaves neither direct heirs nor a will. Colins does not want to tax direct heirs, as he considers parents and children common owners of the family property.

I do not think the proposal an extravagant one, though it includes all classes of property, and not only land. We often have cases where rich men die intestate, without children, wife, parents, or brothers and sisters, and where greedy lawyers try to find distant relatives for whom to claim the property, relatives who never saw the deceased, perhaps never even heard of him, and who certainly did not do as much for him, nor give him so much help in accumulating his fortune, as the community in which he lived. No public interest can be served by securing the inheritance to such people, and even where a testament is found there can be no injustice in allowing the community to come in as another indirect heir to the amount of one quarter of the property. The State might use this income for the purchase of land, even if other methods of land restoration should be carried concurrently. However, many who judge this proposal too radical cannot object to an inheritance tax on real estate, or even a heavy tax whenever land changes hands, such as exists in France and its former provinces, Alsace and Lorraine. By confiscating any excess of land possessions left by the defunct beyond a certain value, we might obtain :

2. A Limitation of the Amount of Land which one Family may own

This limitation could not very well be one of area, for one square foot of city land is often more valuable than a whole acre of farming land. But even if we take value as a basis, another difficulty, that of indirect forms of ownership, presents itself. The mortgagee who collects the rent under the name of interest is practically the rent-owner, and as such the real landlord; the nominal owner serves only as the cat's-paw which takes the chestnuts out of the fire.

If we try to include mortgages in the amount of land values permitted to one family, we arrive at another difficulty :

the indirect ownership of mortgages. Anyone who invests money in a bank, savings bank, or insurance company, is an indirect mortgage-owner, for the money these institutions invest for him is usually put out on mortgages. Thus this method of avoiding too much inequality in land possessions would meet with the greatest difficulties.

3. A Taxation of Land Values

Henry George, though not the originator, is the most successful and the best known champion of this system of land restoration. The proposal bases itself on the right of the community to levy taxes for the defraying of public expenses, and the assumption that there cannot be found a more appropriate object of taxation than land. There is no doubt that much can be advanced in favour of a land-value tax. Before I criticise the theory I shall produce three very strong arguments in its favour.

(a) *Land values are created by the community*; consequently the community has a certain claim to the revenue yielded by these values. As those who never looked very closely into the subject may dispute the premise of this syllogism, it will have first to be proved. To begin with, we must settle once for all the definition of

Value

Value fills such a considerable portion of economic literature that the reader may feel uneasy at this juncture. His fears are groundless; my definition will not fill as many lines as there are chapters—nay, tomes—of other writers on this topic; for it is my firm belief that the world has not been advanced one step by these tedious elaborations, to which we may well apply Macaulay's estimation of ante-Baconian philosophy: "Words, and more words, and nothing but words, had been all the fruit of all the toil of all the most renowned sages of sixty generations. . . . The taint of barrenness had spread from ethical to physical speculations." (Essay on Lord Bacon.) We may add, and not only to physical speculations but to speculations of a still more practical nature—to those of political economy.

If anything were necessary to prove how thoroughly infected all domains of human thought have been through scholasticism, it may be found in the fact that two and a half centuries after the *Novum Organum*, the science which has the task assigned to it of teaching humanity a fairer and juster system of production and distribution prefers to waste its precious opportunities in barren speculations about the nature of "Value." I shall make short work of the monster.

I shall at once simplify my task by leaving "Value in use" entirely aside, for it is self-evident that an object must have value in use before it can have a market value or value in exchange, the only kind of value economic science ought to concern itself about. For this reason, we need not trouble about certain values in use which have no market value because of their abundance, such as water and air under normal conditions. Anything has a market value for which something else is currently offered in exchange. We can call this other thing its price. Only what has a price has value; and price alone determines value in an economic sense, the only kind of value we are concerned with in this treatise. We can safely resign the balance of the whole value-field to those parties who are fond of scholastic playthings; and therewith I have done with that bugbear of students in the field of economics, with *Value*.

Nor can the definition of Land values offer us any difficulties after this. Land can only have value if someone is ready to give something for it. For persons living outside of human intercourse, land has no value in an economic sense. That it has value and use like air and water does not concern us, as our business is only with *market value*, with *price*. Land may be without value even in the presence of a certain amount of population: if there is more of it available than is wanted, and if nobody makes any improvements which give a special value to certain sections. The virgin land of certain parts of the Amazon basin has no value, though it is perhaps the most fertile land on earth; because it is only used in its primitive state as a hunting ground by Indians who virtually own far more of it than they want, and who, therefore, would not pay anything for any part of it. In Great Britain, where 40,000,000 people live on 122,000 square miles, land would have a value even if it had never been improved, if it were an immense

primeval forest to which the 40,000,000 people come from neighbouring wealthy countries to camp out and hold picnics, to fish and to shoot. The desire of monopolising certain areas of the grounds would bring bids from the pleasure-seekers. The simple presence of people who want to occupy more land than can be had for the mere taking gives value to land, and ought to teach defenders of private property in land that claims to possession—based on improvements made by the owner on his land—cannot be recognised.

Improvements a Title to Ownership

Our tourists would certainly not grant the title to a hundred acres of splendid deer forest, for which many of them would willingly pay large sums, for the mere erection of a hut worth a few pounds. Nor would the case be altered if magnificent palaces took the place of the hut, as long as they, the common proprietors of the land, are just as much excluded from the palaces as from the hut. It will be easy to show, however, what an insignificant part the improvements made by the owner of any single piece of English land play in the sum total of value which this land possesses. In the midst of a wilderness inaccessible to human beings, what would his palace, his orchard, his park, his fields be worth? Would their value begin to approach that which this same land, left in its pristine state, would possess if it alone had been left untouched, while all around it arose that England of the twentieth century we all are familiar with; that beautiful country, partly a hive of industry, partly a garden; intersected by excellent roads and railways, telegraphs connecting its thriving cities and its charming country houses; filled with the wealth of all nations of the earth? The timber of the virgin forest alone on that land might be worth more than the average improvements found on such an area. And our landlord certainly cannot contend that all these improvements around him, which produce the value of this wilderness, are due to his work. The value of this piece of forest land was almost nil a couple of thousand years ago, and what raises this value so high in our time is the mere presence of human beings, as well as their present and past labour, but

not their labour on this special piece of land. It is the labour spent all around it, the labour of ages, the labour of Humanity. A Stephenson broods over the problem of transportation by steam-driven waggons on iron-shod roads; others invent new ploughs, sowing, and reaping, and threshing machinery—and land far off in Dakota's prairies, as worthless before as the water of the ocean, acquires an immense value. Not through the work of the cultivator which covers it with the waving corn; for he is getting his dues from the proceeds of this corn after the rent of the land has been paid. This rent is due, not to the corn which can be grown on the land, for that could have been done since immemorial times, but to the railway which permits the sale of this corn in the London market, cheaper than the Essex farmer can supply it, which puts the farmer into communication with the rest of the world, from whence all he needs is brought to his door at reasonable rates. It is further due to the inventors of that machinery which enables one man to do the work of ten. An inventor finds a system of freezing establishments and cool storage ships, through which carcasses of sheep and cattle can be cut up by the Smithfield butcher and served to the Londoner as fresh as the meat of animals slaughtered yesterday within the confines of the metropolis—and millions of Australasian acres double and treble their value in consequence. Talk of this value being due to the improvements of the landlords! Why should they be entitled to land values produced by this and similar work done all over the world, including the work of the meanest hand in an English factory, which enables him to buy this Australasian meat, and thus pay some of the rent of the distant land? Therefore only Humanity, or its delegate, the nation, can be the rightful heir of the fruits of this work of present and past generations, which also made the England of to-day. The nation alone can rightfully claim the additional value which the labour and the mere presence of the people gave to each separate piece of land beyond the market value of its improvements. We are in the habit of calling this additional value the *unearned increment*—a misnomer, according to Miss Helen Taylor, "because those who earn it don't get it, and those who get it don't earn it."

Interest on Improvements

The advocates of private land ownership, in their attempt to justify their monopoly, have tried to justify their title to the improvements made by them or their predecessors on their land. In the writings of one of their most zealous defenders, the French economist, Pierre Paul Leroy Beaulieu, I have met with even the claim of interest on the improvements of the past ; by which process he easily succeeds in proving that the capital invested in improvements actually exceeds the selling value of the land, including the improvements. It has often been shown that a penny invested in the time of Christ at 5% compound interest reaches a sum exceeding the value of a globe, as large as our earth, made of solid gold. The French writer seems to look at interest as the natural automatic increase of capital, instead of considering it a tribute which one man can extort from another under certain circumstances, and he leaves out of sight altogether the income realised from the land and its improvements. If this income did not come up to that which the capital in question would have realised in other departments of investment, it is the fault of the investor, not of the land on which the money was invested. The land might rightly claim that if the man had never come near it, it would have yielded a certain rent in timber growth, and if he had let it to farmers on a long lease, he would have realised some rent besides gaining all the improvements which the farmers made on it. If, instead, he chose to put up palaces in which he spends only a few months of the year, or fenced the land as a deer park to afford him amusement for a few weeks, this was his business, and he could just as little expect a return from such outlay as from money lavished in costly banquets. But to make such waste of capital and the income which it might have brought, when invested in French Rentes, serve as an equivalent for the monopoly of this land which he enjoys is even worse than the mere ignoring of the value which the virgin forest would possess—which his ancestors found on the land. He calculates like the customer mentioned in a story I gave in "Rent, Interest and Wages."

A man asks for a herring in a grocery store. He obtains it,

but changes his mind, and demands a piece of cheese instead. As he is going out with his cheese, the shopkeeper reminds him that he did not pay for the cheese. "Why, I gave you the herring in exchange." "But you did not pay for the herring." "Certainly not. Didn't I give it back to you?" The shopkeeper could not deny the fact; but still felt puzzled how it was that—though everything seemed all right—he had sold a piece of cheese without getting any money in return.

The same conversation takes place between the people and the landlords. "You did not pay for your land," say the people to the landlords who make off with their booty. "No; but you know, I gave the improvements, which are worth as much as the original soil and the virginal forest would be to-day." "Yes, but you did not pay for the original soil." "Certainly not, as I did not keep it, you know."

The Single-Tax

But Henry George—though he maintains that even the improvements are not made by the land-owners, but by those whose labour they commanded in part payment of rent—wants to let bygones be bygones; and he is fully prepared to leave the improvements to their owners, to tax only the unimproved value, as it is generally expressed, meaning the value of the land after deduction of the improvements. In other words, he wants to tax away the economic rent of the land by gradually raising the tax until it reaches this height.

The advocates of this system are called *Single-Taxers*, because they justly assert that this tax, after it once confiscated the full economic rent, would supply the Government with an income ample enough to permit the cessation of any other kind of taxation, and still would yield a considerable fund for public improvements. These, again, have the effect of increasing rental values, and, consequently, the income of the community, and this increase gradually pays for the improvements. The more public improvements, the more rent can be paid; the greater, consequently, the income from the Single-Tax which is to pay for the improvement. This elasticity of the land-value tax, which makes it grow with the disbursements of the public treasury for public improvements, is its best feature. When

the State builds a railroad through a section of country hitherto excluded from such a convenience, the principal benefit of it is reaped by the people whose land it passes, while the community which builds the road has to pay the expenses of it, and for a long time may not even recoup the interest on the disbursed capital. Under the Single-Tax, the increased rental income from the land through which the new road passes will—in most cases—not only pay the interest of the capital, but will also yield a sinking fund which soon pays back the capital. Roads, harbours, canals, tramways, telegraph lines, school buildings, public parks, museums, reading rooms, gas and electric lighting, canalisation, etc., thus make land values rise in their neighbourhood, and they are gradually paid for by the increased rental, if it is taxed away by the community. To a certain extent, even military expenses, by ensuring the protection of the citizen, increase rents, and thus could be reimbursed.

Principles of Taxation

A land-value tax is the only tax on the principle of justice capable of yielding a sufficient income to the community.

To enable this to be understood, I must point out that there are two principles of taxation : 1. Taxation according to paying capacity. 2. Taxation according to benefit received. Though System 2 is the only just one, System 1 prevails, because the only tax of the second category which could be made to yield a sufficient income—the land-value tax—meets the opposition of the most powerful class : the land-owners, who until recently have controlled the legislative power in most countries. The income from State railroads belongs to the same category ; but I think Germany is the only country where they pay enough profit to bear a considerable part of public expenses. Most of our taxes do not allow quite so exact a classification as the two kinds just mentioned, for generally both principles are represented to a certain degree.

Income, Mortgage, and Bond Taxes

are characteristic taxes on the first principle, the ability to pay, though even here the benefit-received principle is not quite

excluded. After all, the income from such sources could not be obtained without the protection of the State, which, to a certain extent, furnishes the equivalent of the tax. The great defect of the income tax, as at present collected, is that, instead of taxing the income at its source, it taxes it at its mouth. Instead of taking hold of it where made, it attacks it where it is spent. For instance, a German lives in England, and spends there an income received from German mortgages. What does England—which takes, say, tenpence or a shilling in the pound from his income—do more for him than it does for the butcher who supplies his meat, and why should he pay a hundred-fold tax? His life is as well protected as that of his butcher, but not better, and his property is mostly protected by Germany, for in England he owns nothing but some furniture of no considerable value. The unjust tax may drive him away, and this will be a dead loss to all those who made money as his purveyors, and to the community which profited by the man's increased consumption of dutiable merchandise, as well as by the taxes and duties paid by the purveyors in consequence of the income derived from his orders. Zurich's high income tax has thus driven or kept away many rich people.

The trouble is, however, that when we come to the source of incomes there is much that we cannot attack. We might thus reach incomes from profits, but a tax on an important source of incomes—a tax on mortgages and bonds—is simply shifted on the borrower as soon as the running contract is terminated. He has to pay it in the shape of an increased interest rate; for, as a rule, capital can demand and obtain as much interest from one kind of secure investments, and in one country, as it gets from other investments and countries offering the same security.

Incomes derived from rent of land and houses are discussed farther on, in connection with land-value taxation. The fact that all radicals and democrats are agreed that the income tax, as commonly levied—the main tax on the ability-to-pay principle—is the justest, and that the indirect imposition is the worst kind of taxation, affords striking proof of the confusion that generally prevails regarding justice and injustice. In ordinary life, it is considered that a man who has rendered a service to another for a consideration can justly demand this consideration; and that, on the other side, a man who claims

from a fellow-man a certain sum, on no other ground than that the other man can afford to pay it, is called—according to the way in which he enforces his claim—a robber, extortioner, or a beggar.

Indirect Taxes

Yet when the State claims its money on no better grounds, our democrats call it a just principle of taxation; and the indirect taxes levied by our custom-houses are looked at as most detestable because they exact proportionately more from the poor than from the rich. However, when we look at the question merely from the vantage ground of a correct taxing principle, we find that raising revenue by income tax is often more unjust than levying custom duties for the needs of the State. The man who pays custom duties receives a greater benefit in return than the payer of an income tax. The absence of the service rendered by the State in the field of transportation, communication, and protection against robbers, would raise the prices of all classes of goods much more than the highest tariff. In fact, custom tariffs are the successors of those well-known tolls levied by robber knights and princes upon the merchant who passed along the roads thus controlled, as the cost for exemption from robbery and murder. This black-mail is still levied by the Bedouins of Arabia. In all civilised countries, the insecurity and inferiority of the roads and means of transportation have been such that they were absolutely prohibitory to trade, in most classes of goods, beyond the nearest neighbourhood; and that no tariff known in our times ever exercised such an effect on prices. Whereas, therefore, the State might claim to render some kind of service for the custom duties levied by it, we have seen that it certainly does not always render such service in the case of the income tax.

I can give no better example—in proof of the absolute injustice of prevalent ideas—than to judge by this criterion the taxes levied by the State for the use of our railways, post offices, and telegraphs. Would it be just to make a rich man pay a much higher fare than a poor man, or to treble the postage on his letters or telegrams, merely because he can better afford it than the poor? We do not charge Rothschild £100

for a ticket which a poorer man would get for a shilling because his income exceeds two thousand-fold that of the other, but demand the same fare from any passenger who uses the same class for the same distance.

Whoever finds this just cannot uphold the income tax, as now levied, and can certainly not raise it to the sky while running down indirect taxation. The only tax which is absolutely just, from both points of view, from that of the benefit-received principle as well as from that of paying capacity, and which, at the same time, could be made to yield sufficient revenue to permit the repeal of all other taxes, is a land-value tax. Nobody pays more for his piece of land than others would be willing to pay in his place; the man who uses more, or better land, pays proportionately more than the one who uses less and inferior land; and he can afford to do so, because if he puts the land to the best use, it is bound to yield him a proportionately higher income.

(b) *A Land-value tax cannot be shifted.* Most of the other taxes can be shifted, and the person who pays a tax to the State often makes a profit on it. The importer who pays the custom duty adds his profit to the outlay, and so does each further middle-man between him and the consumer. The lawyer who pays the stamp duty on a contract, or for the registration of a company, charges for this work and outlay over and above the tax. The producer and middle-man adds his taxes, including his income tax, to the cost price of his wares, to recoup the tax. Can there be any doubt that if the State should impose a tax amounting to one-half of the income made by our physicians, these practitioners would simply double their fees to preserve their former income required for the support of their families?

Rent not included in Price

The case is entirely different with a land-value tax. Such a tax takes part or the whole of the rental income, and though there are exceptions, we may consider it a general rule (except for storage rent, the rent paid by wage workers which influences wages, etc.), that rent is not added to the price of goods.¹ This

¹ Though rent, as a rule, is not included in price, it is always included in the proceeds. An acre of land which produces 50 bushels where the margin

is a self-evident conclusion from the law of rent usually attributed to Ricardo,¹ according to which rent is the additional yield to better (better in the sense of quality as well as location) land over the yield of the most inferior land yet in use, for this latter land would not be used if it did not yield enough to pay the usual wages and the minimum income of capital elsewhere attainable. The price obtained for produce from such land on the margin of cultivation must constitute the market price for two very simple reasons :

1. The produce from better land cannot be sold higher, as the produce from the land on the margin of cultivation would undersell it. If it did not do so, still inferior land would come into use, which, under the higher price obtained, would form the new margin of cultivation, while land on the former margin would now yield rent. If this would cause an over-supply prices would go down, the margin of cultivation would be narrowed again—because the last land added to the area under cultivation would have to be abandoned, as the lower price does not pay cost.

2. Prices on the better land could not be reduced lower either ; for in this case the narrowing of the margin of cultivation would result. As soon as this would cause an under-supply prices would rise, and the margin of cultivation would be forced out again until the price of produce from the land on the margin would just pay wages and interest, but no rent ; or in other words, this cost price would be the market price.² It is clear that under such conditions it matters not who gets the surplus made on the better land, as prices are not influenced by the rent-yielding land, but by the land on the margin which pays no rent at all. Let us even suppose that some of this better land were in the hands of a philanthropist, who refuses to

of cultivation produces only 20 bushels per acre, yields 30 bushels rent ; while the price of each bushel is determined by what a bushel has cost at the margin of cultivation, and this does not include rent. The proceeds of the 50 bushels certainly include rent to the amount of 30 bushels.

¹ As J. R. McCulloch says in his preface to Ricardo's works : the theory generally associated with Ricardo's name was first advanced by Dr. Anderson in 1777, then by Malthus and Sir Edw. West.

² It is almost unnecessary to observe that rent is an income, whether this income is paid to the landlord by another party or whether it forms part of the benefit he draws from his personal use of the land.

reap any profit out of his land, but sells his produce at cost price. As his lower price would not reduce prices all round because his crop does not satisfy the demand, and as those on the margin cannot sell cheaper, the only result would be that those lucky parties who have the chance of buying the cheaper produce, pocket the rent which the land-owner declined to appropriate; the general market price would not be affected, as it is dictated by the cultivators on the margin. We must once for all make up our mind that economic rent is not an exaction of the land-owner, but the result of inevitable conditions. To understand what a land-value tax really means, we must thoroughly imbue ourselves with this fact, and therefore it may not be amiss to prove it by another example.

Shop Rents and Prices

No idea is more prevalent than that prices in shops situated in expensive locations are necessarily higher than those in cheaper quarters, because the rent of the first-class shops has to be added to the prices. Though the fact that prices in fashionable quarters are often higher cannot be denied, it is merely because a richer class of customers is reached, which readily pays higher prices, in the more or less justified expectation of a better quality; but these prices are not the result of the higher rent—the reverse is true. Rents are higher in central quarters principally because larger sales can be made through the central location, which causes more people—and a class able to pay good prices—to pass the shop. Leaving the rich customers out of the case, and only looking at the effect of the greater concourse of customers, goods can be and are—as in the case of the large department stores—sold cheaper in a central street than in the cheap shop of the suburb or in out-of-the-way streets, because the larger sales permit buying in larger quantities, at cheaper prices and with less freight. The higher rent is not obtained from higher prices, but from increased sales, just as the rent of the superior land is not the outcome of higher prices, but of a more abundant crop, or reduced cost of production and transportation, or both causes combined. As rent does not form part of the price in either case, it cannot be shifted on the customer. Whether the shopkeeper is his own landlord, or whether, in

consequence of an old unexpired lease or the liberality of his landlord, he pays less rent than his competitors, does not influence his prices, which will follow the fluctuations of the market and prices of competitors. If the shop were given to him rent free by a philanthropist, the public would not buy there a penny cheaper ; the shopkeeper would merely add the economised rent to his profits. Consequently, taxing away the whole or part of rent does not in the least influence prices, and thus a shifting of the tax on the customer is impossible.

The only man who will pay the tax in the end, and who cannot shift, is the landlord. He exacts the highest rent he can get, and, never mind what taxes he has to pay, he will, as a rule, squeeze just as much out of the tenant as he can, no more, nor less.

Objection

One objection has been made to this. It has been said that, through the shifting of a tax from his shoulders to those of the landlord, the tenant is relieved, and consequently his rent-paying capacity increases, so that the landlord can to that extent recoup his tax outlay from a raised rent, and then shift it upon the tenant. One of Scotland's greatest landlords, the Duke of Argyll, acknowledges that even compensation for improvements will not benefit the tenant so much as is generally supposed, *because the privilege itself* will have a pecuniary value ; that is to say, a landlord will demand, and the tenant can afford to give, a higher rent in proportion.

A number of facts from everyday life uphold the objection. When the toll of a halfpenny on Waterloo Bridge was taken off, the owners of the houses on the right shore of the Thames near the bridge raised their rents sixpence a week—the amount saved by their tenants through the reform ; and no doubt when the house-owners' leases ran out they had themselves to pay a corresponding increase to the ground-owner. If the toll had been charged to the ground-owners, they would have recouped it as soon as the current leases were terminated. Until then they would have made a loss to the benefit of the house-owners, not of the workers who lived in the houses. The cheap fares on the new Central Underground Railway in London had a

similar effect on the rents at Shepherd's Bush and other sections. If a public benefactor in a certain town made a will in which he left a yearly income of £50 to every family living in the town, and only during residence there, the tenants of the town would profit by the gift merely while their leases were running. After that date they would pay the £50 in increased rent; and it would not help them the least to build houses of their own, for, if they leased land for the purpose, the land-owner would at once charge an additional rent of £50 over and above the rent paid before the bequest. If they bought the land they would have to pay the capitalised value of the additional rent. The landlords would be the only beneficiaries of the rich man's will. This is proved by historical precedents. The free or cheap bread, and the free public games of old Rome, did not benefit the people, but the landlords, who obtained a higher rental through the influx of population due to the advantages reaped by an inhabitant of the city. Goschen, Secretary of the Navy, was therefore quite correct when he refused to raise the wages of the Woolwich arsenal workers on the ground that this would only benefit the land-owners, that wages had risen 20% within the last ten years, with the result of a rise of 50% for the rents of working-men's dwellings. The objection would even hold good in case the proceeds of the tax were used for old age pensions, as these would relieve tenants from the necessity of saving for old age, and thus increase the fund they could spare for the rent.

Rating of Ground Rents

On these grounds an attack has been made against the agitation for the rating of ground rents in England. It has been said that such a change would benefit the tenant only as long as his lease runs; after that he would have to fully repay the rates of the landlord in an increased rental. That if a tenant can now afford to pay £100 rent, and £30 rates, he will be able to pay £130 rent the moment the £30 rates are paid by the landlord; and that he will be made to pay the higher rent as soon as the old lease has run out. That the public at large would not be benefited in the least, but only those fortunate tenants who hold a long lease; while those who have to make

a new one would at once have to pay the new rate under the name of rent. That wherever, as is mostly the case in England, a third person comes in between the ground-owner and the occupant of the house—the tenant of the ground, the house-owner—the new system of rating would only result in an extra profit for the latter, who usually takes a lease for the ground on long terms, while the occupant of the house who only makes a short lease would at once, or as soon as his short lease has run out, pay in additional rent what he saves in rates. What holds good in regard to rates is valid also as to taxes. Any relief in taxation increases, while new taxes diminish the rent-paying capacity of the tenants.

Cheapening of unimproved Land changes the Case

Little could be answered to this objection if it were not for another element left out of account. The new system of rating falls also on those landlords who have not made improvements on their land. Though they may recoup future rates or taxes on their ground rents when they once have leased their land to builders and thus obtain a ground rent, while they hold the land out of use the new rates or taxes are a dead loss to them. This will make them more inclined to sell or lease even at reduced rates, which will cause increased building, and thus by increasing the supply of houses will have a tendency to bring down rents.

Rating on unimproved Values

This effect will be further strengthened if the taxes are no more levied indiscriminately on land and improvements, but, as in New Zealand, on the land alone.

Rating on unimproved values, as they call it in Australasia, becomes more and more popular in the colonies, and proves very beneficial. The man who improves land which has lain out of use receives encouragement at the same rate at which the speculator is discouraged. The former will no more be fined for giving employment to labour, and for increasing the wealth of the country ; and the higher the tax, or rate, the greater the

benefit realised by the community as a whole, and by all workers in particular.

(c) *The ease of control and collection* forms another advantage offered by a land tax. Land cannot be hidden; it is always openly exposed to the tax-gatherer's eyes. Its value can easily be found, as it depends on the rents whose rise and fall can be controlled.

Confiscatory Nature of Land Tax

I have now shown the decided advantages which a land-value tax has over all other taxes; but one of its very virtues supplies a point of vantage from which this tax has been most seriously attacked. The fact which so strongly distinguishes it from other taxes, that it cannot be shifted, imparts to it the character of a confiscation. The value of land resembles that of a slave in so far as both are the market price of a tribute claim. A slave is worth £100 when, after deducting all expenses, £10 or £15 can be cleared through his labour; because this tribute claim of £10 or £15 can be sold in the market for £100. A piece of land is worth £100 if a rental of £5 can be realised from it, provided 20 years' purchase, or a capitalisation of 5%, is the price paid by the market for this class of tribute claims. If the State taxes away this rental value of £5 without any compensation, it confiscates the £100 capital value. If it only taxes away £2 10s., it confiscates £50 of property, and even a mere shilling in the pound of rental value takes away 5s. of the £5 tribute bought for the £100, and consequently confiscates £5 of the £100.¹

I shall have more to say about this question of confiscation and compensation during the discussion of the fourth method of fighting the danger of land monopoly.

4. The Abrogation of Private Land Ownership

Of all which has ever been written about this subject, nothing can approach the wonderful work of Henry George, the pioneer of the modern land reform movement.

¹ The same holds good in every single case where, through a shifting of rates on unimproved land values, the tax on the land is raised more than is taken off from the improvements.

"Progress and Poverty"

has opened a new world to untold thousands of men who had previously refrained from social reform work, because socialism did not seem attainable or even desirable, and other solutions appeared hopeless. The mere looking out for such meant a dive into the dismal abyss which the science of economics presented to the ordinary mortal, until Henry George's poetic prose, his wonderful imagery, a limpid style such as had not been known since Macaulay fascinated his hosts of readers, rendered economic subjects more attractive than the ordinary novel. Here lies the imperishable merit of the book, not in its scientific theories, which unfortunately contain many sad errors.

The book is too well known to require any recapitulation. To those of my readers who have not read the work, I merely give the advice to study it before they go on with the present book. They may not agree with everything in it; in fact, if they have any notion of economic realities they will shake their heads over several strange theories, such as the relations George finds between wages and interest, his absolute negation of the wage-fund theory, his ideas as to the cause underlying commercial depressions. But they will acquire the absolute conviction that justice and expediency demand that the ownership of the soil must belong to the people as a whole, and that no thorough-going reform in the social domain is at all possible without the restoration of the land to the people. With unmitigated delight we follow the author's sledge-hammer strokes against the greatest crime man ever committed on this planet—the crime of selling and pawning God's own, this earth, the great heritage of humanity. One after another of those sophistic defences with which the usurpers and their gang of venal or ignorant lackeys have tried to prop up the foul thing crumbles before those mighty strokes. Nothing will hold together; not *the right of discovery, or first occupation*, claimed by the human mite left stranded for a few seconds by the ocean of time on some little nook of this globe, which, according to his mitish knowledge, was never before alighted upon by any fellow-mite of his. Whereupon the little mite prefers a title to that nook for all times to come, including the right of

use and abuse, of letting to fellow-mites against heavy tribute, or withholding the use, though fellow-mites should die miserably in consequence. Not the *right of conquest* based on superior power, driving other mites from the locations previously occupied by them : a dangerous title anyway, for it legitimises Democracy's claim to the right of expropriation without compensation, whenever it has the power to enforce the claim. Not the *right of purchase* from other mites, whose title, after we have proceeded backward through the centuries, finally finds itself based upon some such pretence of first occupation or conquest. Not *any right whatever given by king or parliament* ; by His Majesty, the chief mite, or the mite-hive's representatives. Not even the assent of all the mite-hives which ever passed over this little globular speck in the universe during a few pulse-beats of eternity, on their journey from the unknown to the unknowable, even if this assent be engrossed ever so visibly on the hides of defunct sheep, goats, or asses. Can a thief give a valid title to his booty ?

Land Taxation is not Land Restoration

With kindling eyes you read on and on, more and more eager to follow the great leader to the ramparts where the advocates of wrong vainly try to defend their parchment fortresses. Alert you listen for that word of command by which the glorious captain will direct to the first point of attack.

At last you come to the study of Chapter II., of Book VIII. Can you believe your eyes ? Are you reading aright ? Is it possible that the very man who has just proved with a logic as transparent as crystal that private property in land is doomed and must be exterminated if humanity is to live, that this very man now advises you to leave this property in the possession of its present owners, on the grounds of expediency, and to content yourself with taxing it ? Again and again you read the page ; but there it is, it cannot be wiped out. The prophet was a poor, erring human being after all.

Not that I object to the taxation of land values. I have already shown that I entirely agree with Henry George when he places this system of taxation over any other. If "Progress and Poverty" had intended to be a book on the principles of

taxation, I should say, without any qualification, that its author made out a good case for the tax he proposes. I should only make some reservation as to the right of present land-owners to compensation, which he denies. Before entering into this question the first point to be decided is whether even a tax of twenty shillings in the pound is equivalent to land restoration? Does it mean that the community can dispose of the land as it wants to? We are forced to deny this at the outset. The tax does not even touch the power of the land-owner to use and abuse his land as he sees fit. Provided he pays his tax, nobody will prevent another Duke of Sutherland from clearing thousands of hard-working people from his land, from their Fatherland, from making another of those bloody entries in Clio's book by which his family scutcheon has for ever been tarnished. All that will be asked of him is to pay the highest rent which the poor, despairing crofters—driven unmercifully from the homes and the soil which they and their forefathers had tilled in the sweat of their brows—would have been willing to pay. What of that? His income from other sources, from bonds and stock of all kinds, from houses and factories, allows him this sport. He wants a deer park, and he can afford to pay for it as well as the American Winans who bought Scotch land from sea to sea for this purpose.

Nor would it prevent facts like those reported in the following newspaper extracts:

A Millionaire's Freak.—Mull, an island on the coast of Scotland, is the property of Earl Beauchamp. It has an area of 237,000 acres, and a population of 4,691 living in 1,030 houses. Among its products are oats, barley, flour and potatoes, and the inhabitants have also had a fair export trade in sheep and cattle. A millionaire has recently secured the sole ownership of the island, and wishes to turn it into a deer park for the amusement of himself and friends. He has, therefore, given the whole population notice to quit, and has decreed the pulling down of all the houses.—*Barrier Truth.*

Deer Forests in the Highlands.—The acreage of deer forests in Scotland is increasing. Fifteen years ago they extended in the Highland counties to 1,711,892 acres; last year they were 2,287,297 acres. These figures are exclusive of certain

forests, such as Glencannich and North Affaric, with regard to which no return has been obtained. I observe, says a London correspondent, from the Parliamentary Report issued on Wednesday last, that in several cases the sheep farms of 1883 have become the deer forests of 1898.—*The Highlander*.

Land Taxation would not prevent Land Monopolisation

Suppose that Rothschild and a few hundred other millionaires in England and America should share this whim to turn Great Britain into a deer park, and British landlords should sell at reasonable figures because of the new tax, which destroys the selling value of their land. Under existing laws, what could prevent these men from having their will? Certainly not the land-value tax, even if it were as high as it would be were the present values taken as a basis of calculation, *i.e.*, 150 million pounds a-year. The income of Rockefeller and Carnegie alone is at present valued at 12 to 15 million pounds each; that of the Rothschild families is about as high; and without going any farther, we have already obtained one quarter of the yearly tax required. But how long would it be required? How long would there be a rental value of 150 million pounds in a depopulated England, in that magnificent new deer park? That value would follow British enterprise wherever the evicted people went. Australia, New Zealand, Canada, South Africa, would see their land values rise as the British land values fell; and finally, the 150 million might be reduced to something like 5 shillings an acre, to 20 million pounds, or less even, a mere trifle for such magnates.¹

But I need not demand such a stretch of the reader's imagination to make him perceive that land taxation and land restoration are totally different affairs.

¹ Since I wrote this, I have read that Dr. William Clarke published an article in the *Contemporary Review* of December, 1900, in which he predicts that England will gradually be turned into the pleasure domain of the world's aristocracy and plutocracy. The population which did not emigrate would serve as their flunkies and shopkeepers.

Land Taxation would not put an End to the Abuses of Landlordism

In fact, I can see no reason why the proposed system should at all do away with some of the worst abuses of landlordism, abuses of daily occurrence. Even in Germany, where property is much more equally divided than in England, there are instances of large land-owners who buy up all the surrounding land until whole villages disappear, sometimes to let the land become overgrown with forest. The same takes place in Austria. Henry George's plan would not in the least increase the financial sacrifice of such purchasers. They would have to buy only the improvements, as the unimproved value of the land disappears in consequence of the tax, and this tax would not be higher than the present interest on their purchase money.

Nor could a mere land-value tax do away with cases like the following, which are quite of common occurrence in England and Scotland. Here are a thousand acres, used as grazing land for sheep, and yielding the landlord a net rental of £1,000 in sheep and wool; after labour to the amount of, say, as much as £200 has been paid for. If the land were let out in allotments, it would yield a rental of £2 an acre; and it would keep at least 100 families against 2 in the other case. The gross product would be about four times as large, or even more; but the landlord prefers the lesser income, because the division into small holdings would interfere with his sport. In the Paris Congress of land-reformers, my departed friend, William Saunders, in narrating his Wiltshire experiences, told of a landlord who preferred to accept 15 shillings an acre from a farmer rather than £3 paid for allotments—a rent at which the labourers, his tenants, yet made a living, while the farmer failed.¹

What difference would a tax make in such cases? The landlord would simply pay the tax, even though it should reach the

¹ Sport may not have been the only cause for this anomaly. The landlord was perhaps afraid that allotments would render the labourers too independent, so that farmers would have to pay higher wages, and thus be unable to afford as much rent.

height of the rent offered by the crofters, and would still retain the farmer (and his sheep) who takes part in the hunt, instead of interfering. The State could not prevent this comparatively unproductive use of the land—unproductive in a double sense : in wealth and in men. Under the single tax all it has a right to claim is its tax.¹

¹ My friend, A. J. Ogilvy, of Tasmania, one of the finest intellects in the Southern hemisphere, in an article written for *Land and Labour* (August, 1900) gave seven reasons for withholding land, of which I here quote the last three, as those which would not be affected by a mere land tax. I have already given one of these in the text, but Mr. Ogilvy's terse expressions and happy illustrations can only be of additional help in elucidating an important truth :

(5) *Business withholding.* Most people are under the impression that it is the more productive use of the land that brings the highest rent, and so that high rents enforce productive use. This is a great mistake. A small product which a man can keep all to himself is more to him than a much larger product which he must share with many other people. Under existing conditions the labouring man is regarded by the landlord, by the employer, and too often by the economist, as a mere expense to be kept down ; his wages being regarded as the cost of the product (to the country as well as to the employer), instead of what it really is, his share of the product (whether paid *out* of the product or advanced beforehand is immaterial).

Suppose the owner of 100 fertile acres, putting his land down to grass, can make it yield £1,000 in meat, without any expensive wages, he himself doing what little work is required, thus clearly he can keep all that £1,000 to himself. If he bought manures and machinery, and employed labour to cultivate that land, it would probably yield twice as much—£2,000—in produce of some sort ; but he would have to pay away at least three-fourths of it in wages and purchases, leaving him only £500. It is his interest, then, to have the land put to the less productive use, even if he lets it to a tenant, for the tenant can then pay him a higher rent for the same reason that he could have made the higher profit. So the production of the land is reduced to half, the manure and machinery remain unsold or unproduced, and labourers unemployed ; wages have to be reduced, business profits (of the manure and machinery producers) cut down, and the struggle for existence of the workers all round made more grievous. This (if you will take the trouble to trace it out) is one of the commonest sources of land withholding, and one of the most difficult to meet so long as the relations of land, labour, and capital remain as they are. Mere land taxation will not touch it so far as I can see.

(6) *Autocratic withholding.* This is when an owner withholds his land from the superior use required of it, notwithstanding that he does so at a distinct loss, because he prefers some other gratification from the land to that of money-making. The commonest form of this is in land withheld for sport, chiefly in deer forests. A single deer forest is sometimes as large as

Nor would a mere land tax prevent those abuses of the landlord's power so often experienced in England, attacks on the liberty of conscience, the prohibition of Dissenter's places of worship, or attempts against their political independence, coercion of voters through the Damocles sword of notice to quit always gleaming over their heads.¹

a county, and though it is on the whole very inferior land, it always contains considerable tracts of land, not only quite fit for cultivation and home-making, but that have actually been so used from time immemorial till the occupants were cleared out to make way for the deer. True it is that the land-owner often clears them away, not for his own sport, but for his own profit, *i.e.*, for the higher rent offered by a rich landless sportsman than the workers could give for mere permission to live by their own labour in that spot. But this does not in the least affect the fact that the land is withheld from productive use by the poor, merely to afford sport to the rich, whether they be the actual land-owners or not. Practically, it is the landless capitalist who, by his higher offer, is the real cause of the eviction. The case is another example of the point made by the Socialist, that for purposes of practical reform it is impossible, or useless, to distinguish between the landlord and the capitalist.

(7) *Lordship*. I know cases in which a land-owner persists in holding his land, although he knows that the rent he receives, or the occupying profit he makes, is less than the interest of the money he could get if he sold, so that he remains poorer than he need be. Yet he refuses to sell even a part to a more efficient man, or for a more efficient purpose, because he cannot bear the idea of diminishing his sense of lordship over a large area, or many dependents.

¹ Dr. Alfred Russel Wallace, in "Land Nationalisation," gives the letter of a landlord named Langhorne Burton to a Wesleyan minister who asked that religious services which had been conducted by him, and interdicted by the landlord, might be resumed. I extract the following passage: "The result (of the non-resumption of the services) would probably be the removal from Bay-Enderby of all the members of your body, who are of little value as tenants. I wish to have as tenants *none*" (these italics are his own) "but thorough Church people, and consider myself at liberty to choose such as I like without being dictated to by anybody."

Mr. J. West, of Bradford-on-Avon, writes to the *Echo*: "A titled landlord in Warwickshire has enforced upon his tenants an agreement, the last clause of which runs as follows: 'The tenant agrees to have his children properly vaccinated at the usual age, and not to raise any conscientious objection to the same.'" Could tyranny go farther than this? Such is the omnipotence of landlordism in this country that people are not allowed to avail themselves of their statutory rights, but must, at the whim of landlords, have the health and life of their children crushed out under that superstition—"vaccination." It is difficult to conceive upon what grounds a landlord has the right to dictate to his tenants any special kind of medical treatment, any

Nor would it render possible the construction or reconstruction of towns on improved systems which might be adopted by a land-owning community, for under the single tax the community's power does not extend farther than its taxing privilege. Once the tax is paid it has nothing farther to say beyond the issue of comparatively trivial building regulations.

more than he has the right to dictate the kind of food they shall eat, or the clothes they shall wear. How long will the people of this so-called free country endure to have this superstitious medical fad thrust upon them by various devices?

The following item from Passaic, New Jersey, might show Mr. West that employers are sometimes as great despots as landlords:—

"There was a lively time at the American Tobacco Company's works to-day (April 11, 1901), when the 350 girls employed therein heard they would have to be vaccinated because two employees had died of small-pox. The girls vehemently objected; some fainted, others went into hysterics, and a general rebellion ensued. About 200 tried to escape from the building, but all exits were blocked. Several girls fought the police, who were called in, and they had to be led screaming, struggling, and kicking to the surgeons. The greatest excitement prevailed, and all work was suspended. At one time the girls threatened to set fire to the establishment if they were not let out. By night, however, they were all subdued, and everyone of them had been vaccinated."

Under the title "Conscience Owners," the *Beacon* of Melbourne gives this instructive little tale:—"The following is an idyll from Fletching, a little village in Sussex, where Lord Sheffield exercises his mild sway: On the death of the vicar a large number of the villagers—men of the Low Church—came to the conclusion that his most acceptable successor would be the zealous and popular curate whom they had known for eighteen months. Accordingly, the people's churchwarden had the audacity to 'approach' Lord Sheffield with a humble request that he would receive a petition 'on behalf of a clergyman whom they would like to have as vicar.' To this Lord Sheffield graciously replied that he would 'give the petition all the attention and consideration it will deserve.' The petition on behalf of the curate was duly signed by 275 persons, and submitted. The sequel was astounding. Lord Sheffield appears to have charged the promoters of the petition with 'serious misrepresentations'—the suggestion being that they had encouraged the belief that he approved the candidate on whose behalf the petition was drawn. Nor was that all. Many of the signatories were Lord Sheffield's work-people and tenants. They were promptly served with notices to quit, the notices being followed by a private inquisition into the circumstances surrounding the petition. The villagers, it seems, ate the requisite humble pie, and the notices were withdrawn."

Self-Interest does not insure best Use

Henry George was principally misled by his assumption that the self-interest of the individual must bring about the best use of the land, because the tax will be at a level with the highest rent which the average land user would be ready to bid for the land, and no man can pay this rent without putting the land to the best use possible under the prevailing conditions. No doubt this is true, but what may appear the best use to him may not be the best use in the interest of the community.

We have already seen that the interest of the community is very often absolutely opposed to that of the individual, real or supposed. The individual has the passion of hunting and shooting, and his interest, as he understands it, drives him to deplete a large area of land of its inhabitants so that his game may not be disturbed. Or he may destroy thousands of homes because he thinks sheep runs more productive—not of human happiness—but of rent. On the other side, the community prefer sheep to deer, and citizens to sheep. The State, if it realises its own welfare, cannot allow a condition wherein—as was said in England centuries ago—sheep will swallow men, and it certainly cannot allow deer to develop a still greater appetite for human flesh than that possessed by sheep. The State's principal object must be to see the greatest number of happy persons grow up under its protection ; thus only will she protect herself against outside attack. Neither sheep nor deer will take up arms in her defence in the hour of need.¹

Therefore she cannot afford to allow the letting of the national land become a mere financial manipulation, a question of the largest rental income in each special case. But even from

¹ In Peru and in Egypt part of the soil was distributed to the soldiers. Dodurus says : "This was done to give a solid basis to their patriotism. It is absurd to confide the public safety to those who have nothing in the country worth the trouble of fighting for." (Ch. Letourneau, "Property : Its Origin and Development," p. 145.)

The famous passage from Pliny's writings where he describes the fate of Rome's soldiers, who did not own a square foot of land, as worse than that of the wild beasts which have their lair, applies to Great Britain's soldiers who fight for a country in whose soil most of them have no part whatever, while their present foes (in Africa) are endowed with the strength of Antæus through being in continual touch with their own soil.

this most one-sided point of view she would find that higher special rents may result in lower general rents. Going back to our example, where the land yielded a lower rent to the owner when used as a sheep farm than when let to 100 small farmers, and where still the landlord preferred the sheep to the men. As the land-value tax would demand of him the rent which the 100 farmers would be willing to pay—£2,000—whereas the sheep yield him only £800, he would have to pay the additional £1,200 out of his pocket, if he gets no compensation, or out of the income he obtains in case of compensation. In either case, we have the same sacrifice he makes now when he relinquishes a rental income of £2,000 for one of £800 in the interest of his sport. The State would have to be content. Provided her taxes are paid, she has nothing farther to say.

The Case changes under Land Nationalisation

Under land nationalisation the case would be different. The land might be refused to the former landlord, though he were willing to pay even the double of the £2,000 offered by the crofters, and it might be found a profitable business, from the mere financial point of view. The farmers would not only pay other taxes, besides their rent, but their wants would provide with employment a number of industrial workers, who, in their turn, pay rent and taxes ; these, again, want goods from others, and taking all into account, the increase of public income may be much greater than the excess of rent which the sportsman would be willing to pay.

Under the single-tax system, as I have just shown, a combination of rich men could buy the whole land of Great Britain, and could keep it as long as they paid the same land-value taxes which the British people would be willing or able to pay, with the certainty that this tax would be very much reduced after the population had once been forced to emigrate. Would this be possible under land nationalisation? Can it even be imagined that the State would let Great Britain to a syndicate, if the syndicate offered a higher rent than the English nation? That this nation would decide to give up its national existence, and to leave the country of its birth because a higher rent could

be obtained from this land, a rent which, after the people left, would belong to the syndicate which paid it? It requires a pretty strong imagination merely to think out such an absurdity, and yet—as I indicated before—we have only to multiply the Sutherland, Winans, Carnegie, & Co. with a certain figure, and we have a syndicate strong enough to buy the land of Great Britain. The fear of too high a taxation need not frighten them very long, for they would at once give notice to their 40,000,000 tenants, and after their emigration the syndicate would reduce the tax to suit its own convenience. That such an event is practically impossible is not counter-argument, because it is only saying in other words that the single-tax is impossible.

**“Cash Payment is not the sole Nexus of
Man with Man,**

how far from it!” says Carlyle. Though the single-tax state could not, the land-owning state would soon find that out, and would lease the land on principles not quite following the mere “supply and demand” theory. Cases would arise where a high-born or low-born capitalist offered a million pounds a-year for a certain county of Scotland, whereas fifty thousand poor crofters could afford only £10 each, and yet the crofters would be allowed to continue raising oats and hearty men and women on the land, whereas the capitalist would have to look elsewhere for partridge coverts. For, fortunately, no agent of Lord Gobbleland or of John Brown—retired partner of Smith, Brown, & Baker—would have the letting, as they would even under the single-tax; but poor Hodge, who wants a little croft on which to grow potatoes for his children, and Jones, the artisan, and Mill, the factory hand, who want a home market for their goods, not barred off by protective Chinese walls, and who know that fifty thousand crofters use more shirts, coats, boots, and hats, and other manufactures or produce, than a dozen Gobblelands: these are the men whose agents will have the letting of that land. Even if their agents will collect £500,000 less a-year, and even if the tax-paying power of the 50,000 tenants and their purveyors should not make up the deficit in the common purse, they will not mind so very much, as long as their—the

people's—eating, their shirt and coat-wearing power continues to grow, which, strange to say, has more weight with these deluded beings than all the calculations of learned professors, who want to convince them that they are acting against all the tenets of a sound economic doctrine, according to which the land ought to go to the highest bidder. That it is not the State's business to procure employment to such men as they. That such unscientific proceedings would merely result in a further over-population. That if there is no demand in the market for their work or produce, they must get out of the country as fast as they can, or put on khaki to shoot Chinese and other people who presume that they can do as they like in their own country, instead of recognising that their paramount God-taught duty is to buy the over-produced goods of Old England. The idea of wasting £500,000 rental income of the State to provide a market for 5 million pounds' worth of home manufactures, and thus sustaining not only the 50,000 crofters and their families, but also many thousands more, who exchange manufactures for their food and raw materials! To provide, instead of this, only a living for Gobbleland's 50 gamekeepers may be a poor policy, but by letting the nation's land according to the gospel of Supply and Demand we have at least the consolation of working within the lines of orthodox political economy. It is true, Supply and Demand will not defend England should the foreigner succeed in invading the country. Nor would it feed the nation if some day foreign fleets cut off the corn fleets of distant regions; or when those corn-growing regions have joined the ranks of England's enemies. Lord Gobbleland's partridges certainly would not go very far towards supplying the necessary food; the oats grown by the 50,000 crofters might do us more good. Their arms, and those of the artisans and mill-hands they provide with a living, will form a better army than the fifty gamekeepers—officered by Gobbleland, if he is not in India tiger-shooting or taking his ease in Paris. But what does all that signify when Gobbleland's £500,000 additional land tax is taken into consideration?

Henry George's Motives

It is almost unbelievable that a man like Henry George should have thus left the straight plain road he had opened, and should instead have chosen a crooked by-path full of thorny weeds, and ending in a quagmire. For such a course, he must have had most powerful motives, certainly worth examination.

When we investigate his reasons our astonishment increases, for all he has to say in explanation of such a sudden departure from the principle which the whole book has been advocating is contained in the following few lines :—

“To do that (formally confiscating all the land and formally letting it out to the highest bidders) would involve a needless shock to present customs and habits of thought—which is to be avoided. To do that would involve a needless extension of Government machinery—which is to be avoided. It is an axiom of statesmanship, which the successful founders of tyranny have always understood and acted upon—that great changes can best be brought about under old forms. We, who would free men, should heed the same truth. It is the natural method. When Nature would make a higher type, she takes a lower one and develops it. This is also the law of social growth. Let us work by it. With the current we may glide fast and far. Against it, it is hard pulling and slow progress.”

That is all.

Confiscation or Compensation

George, as we see, sets out from the axiom that land nationalisers want to confiscate the land, though most land nationalisers, like myself, will fail to remember ever having met one single partisan of our special method of land restoration who even dreamt of proposing such a measure. It is, however, quite consistent with George's convictions to leave out of consideration any other method of accomplishing land restoration of any kind.

The idea of compensation is so absolutely antagonistic to his thoughts and principles that he cannot even conceive how land nationalisers who propose compensation—and as I have just said, they all do—can be honest. In his opinion, we do not really want to obtain the land for the people at all; we only want “to draw a red herring across the track” of land restorers, as a single taxpayer once stigmatised my work for land nationalisation in New Zealand. George’s words are: “For to say that men must be compensated if they are prevented from doing a thing is to say that they have a right to do that thing. And this those who intelligently advocate compensation know. *Their purpose in advocating compensation is to prevent abolition*” (“A Perplexed Philosopher,” p. 276). Now, it is certainly not a feeling of unkindness towards co-workers on another plan which begot such thoughts, for he was the kindest of men and the most loyal of friends. No, it was his firm and unshakable conviction of the absolute injustice of compensating anybody for ceasing to perpetrate a wrong. Private land ownership, in his eyes, is a theft, and if anybody were to be compensated, let it be not the robbers, but their victims, the landless people whose heirloom has been taken away from them since times immemorial. “Let bygones be bygones,” I have heard him say repeatedly in public, “only don’t sin any more!” . . . “Let the people forgive the past, the immense amounts wrested from them by the landlords, and only demand to be at last reinstated in their rights.”

According to him, it makes no difference how the land-owners got into possession, whether they inherited, stole, or bought their land in good faith. The law demands restitution without compensation from anybody who bought stolen property; why should there be any difference whether the stolen object is a watch or a piece of God’s earth? ¹

He usually compared private land ownership with slave property. Both confer the right of claiming the work of fellow-men without any compensation. In fact, we might say that the slave-owner gives at least some kind of compensation to the

¹ In fact, the case of the watch is much harder, for the temporary owner might have bought it in good faith; but everyone is bound to know that the land of this earth has been created for all men by its Maker.

slave whose services he makes use of, for he feeds and clothes him, provides him with shelter, medical advice and assistance; whereas the landlord demands his rent, little caring how the tenant makes a living. The tenant often has to work harder than a slave to pay his landlord, and has to find himself.

"Compensation for the selling value of a slave, which disappears on the refusal of the community longer to force him to work for the master, means the giving to the master of what the power to take the property of the slave may be worth. What slave-owners lose is the power of taking the property of the slaves and their descendants; and what they get is an agreement that the Government will take for their benefit and turn over to them an equivalent part of the property of all. The robbery is continued under another form. What it loses in intension it gains in extension. If some before enslaved are partially freed, others before free are partially enslaved." (*"A Perplexed Philosopher,"* p. 263.)

Other arguments are given, and more might be added.

Force against Force

A strong one has already been alluded to on a previous page. The original title—in Europe, anyhow—is based on conquest in the last resort, on the right of the strongest. Since the people as a whole are stronger than the land-owners, the latter could have no valid objection to confiscation were the people sufficiently united for land restoration to overcome by force any possible resistance, for the new title would have the same foundation as the one it superseded. History has seen such cases. On that memorable night of August 4, 1789, of which Carlyle says: "Dignitaries, temporal and spiritual; Peers, Archbishops, Parliament-Presidents, each outdoing the other in patriotic devotedness, come successively to throw their own untenable possessions on the altar of the Fatherland. With louder and louder vivats—for indeed it is after dinner, too—they abolish Tithes, Seignoral, Dues, Gabelle, excessive Preservation of Game; nay, Privilege, Immunity, Feudalism root and branch."

It was a voluntary surrender only in appearance; in reality,

the old spent force which had conquered the privileges yielded to the new force which did not content itself with what was surrendered, but confiscated a good part of the remaining monopoly, the property of the land itself.

When a people emerges from despotic Government, and takes its destinies into its own hands, assuredly it may also overthrow the institutions of the old regime ; revolution has its own laws, those of the stronger.¹

The Seller calling his Customer a Thief

But what shall we say of some aged New Zealand single-taxers who for the last thirty or forty years have helped to make the laws of this country, recognising private land ownership as a matter of course, selling the land of the nation and taking hard cash for it, by which to reduce their own taxation, when now, after having become converts of Henry George, they declaim against the wrong of compensating the very men or their successors whose money they took ? George denied the right to compensation to a man who had bought a watch from a thief, even though he did not know it was a stolen watch ; but he certainly did not think the thief justified in reclaiming the watch without payment from his customer, and to call him a robber who bought stolen goods.

¹ So has reaction, the revolution backward. The following passage taken from Macaulay's "History of England," Chapter II., shows to members of the English Liberty and Property Defence League—a league of drones formed for the defence of the liberty of exacting tributes from the land-using workers and of the property wrested from the people, the land—that their party supplied a very valuable precedent how to treat vested rights, even where founded on cash payment. Their own actions in the past have deprived them of their strongest defence against plans of confiscation.

Single-taxers may point out to them of how little value they accounted the right based on honest purchase, how it was they who first in England made use of Henry George's argument that the owner of stolen property has the right to take possession of it without any compensation wherever he finds it, never mind what consideration has been given by the actual possessor.

"Property all over the kingdom was again changing hands. The national sales (under Cromwell) not having been confirmed by Act of Parliament, were regarded by the tribunals as nullities. The bishops, the deans, the chapters, the Royalist nobility and gentry re-entered their confiscated estates, and ejected even purchasers who had given fair prices."

A bad Precedent

A State which could proceed on these lines would furnish a very bad precedent. To-day she confiscates the land which she sold for hard cash, because private land ownership is robbery ; to-morrow she declares that the public debt has long since been more than repaid by the interest the creditors have received in the course of years, and interest is robbery. Consequently, the debt is repudiated, without any other compensation to bondholders than to call them robbers, never mind whether they are the original lenders or those who bought their papers only yesterday, trusting in the State's good faith. The day after, anarchists obtain the majority, and declaring every employer a robber, they confiscate the factories built by the workers, and, of course, as they make out, belonging to them by right.¹

Honesty the best Policy

We can leave the question aside whether the confiscation of the land is a crime or a justified action, for Talleyrand's famous words applies here: "*C'est plus qu'un crime, c'est une faute.*" (It is more than a crime, it is a blunder.) Even the proverbial Yankee who sent his son into the world with the advice, "Make money, honestly if you can, but make money anyhow!" preferred the honest way if it was as practicable. If I shall therefore succeed in proving that compensation is the only practicable plan, and further, that it is the cheapest, I should think that we may as well take that way which most people in our generation believe to be the only honest way, never mind what George and his disciples may consider about it.

Attack against Herbert Spencer

It is not with books like "A Perplexed Philosopher" that such men as Herbert Spencer are gained over to our side. The

¹ If there were no other way but confiscation to obtain land restoration, I should agree with Proudhon when he said that if he had to shoot 100 innocent men to save 10,000, he would give the order to have them shot. I should agree even if I were one of the hundred ; but fortunately, there is an alternative in our case.

great sociologist certainly acted wrongly when he gave up the idea of land restoration because he could see no practical way of accomplishing it without wronging the present owners. Such a withdrawal was not moral in a man who had recognised that "with this perplexity and our extrication from it abstract morality has no concern. Men having got themselves into the dilemma by disobedience to the law must get out of it as well as they can, and with as little injury to the landed class as they may."

Henry George would have been better entitled to cast stones at Herbert Spencer if "Progress and Poverty" had proposed a practical reconciliation of the interests of the people with those of the land-owners.

Compensation for a Tax

On p. 282 he reproaches Herbert Spencer for not even so much as alluding to his proposal of taking land values, not land ; for ignoring it "because there is on that line no place for proposing or even suggesting compensation. Compensation to the ultimate payers of a tax is something unheard of and absurd."

Even here George is wrong, as I had pointed out to him long before he wrote this passage. When in 1865, in Prussia, the land tax was imposed on the properties of certain nobles, who, as former independent sovereigns, *i.e.*, direct dependents of the German Empire, had been exempt from this tax, they were compensated to the full capitalised amount of the tax (at $4\frac{1}{2}\%$, 22 years' purchase), because a tax on land confiscates a proportionate part of the land's value, as the land is nothing but the capitalised rent, and any deduction from this rent correspondingly reduces value or selling price. Whether we take away a man's land, or the rights which this land gives him, and which alone constitute its value, amounts to the same thing. If we give him no compensation we are guilty of confiscation.

A Grievance against Spencer

I should have a better right to accuse the illustrious Spencer that he maintains errors long after he had a chance of correcting

them. After his letter in the *Times* (November, 1889), giving as his principal reason against carrying through land nationalisation that the interest which would have to be paid to raise the funds required to compensate land-owners would exceed the rent obtained by the State, I showed him in a letter how, through the rise of rent on the one side and the falling of the interest rate on the other, there would be a growing surplus sufficient to pay off the whole debt within a measurable time. Granting, as implied in the answer I received, that pressure of work and the state of his health prevented the philosopher from giving a complete reply, still he cannot be excused for failing to investigate the facts placed before him. If found true, as they were bound to be, they withdrew the foundation on which his opposition to land nationalisation had been based, a reform without which—according to him—the law of equal freedom is infringed.

Land Nationalisation a Shock to present Customs and Habits of Thought

As confiscation is not on our programme, let us see what else George has to oppose to land nationalisation. "It would involve a needless shock to present customs and habits of thought."

Certainly not in England, where by far the greatest part of the land does not belong to the people who use it, and is not used by those who own it; where it does not change to any great extent existing habits and customs, whether the tenants have to pay their rents to the agent of the Duke of Westminster, Buccleuch, etc., or to the agent of the Government. Even in the United States, as we have seen, about three-eighths of the land is worked by tenants, and most of the rest is mortgaged heavily, so that the nominal owner is practically the tenant of the mortgagee. Similar conditions exist in Germany, France, Italy, etc. If we take all this into consideration, we come to the conclusion that, after all, the substitution of the State for the private landlord would not involve so great a shock to existing customs and habits.

But to impose a tax that shall gradually grow until it swallows the whole rental value of the land, thus gradually to confiscate

the basis of property guaranteed by the State like any other property, to put on the shoulders of one class of citizens the whole of the State's charges, this, according to Henry George, could be done without any needless shock to present customs and habits.

Land Nationalisation involves Extension of Government Machinery

He goes on: "To do that (nationalise the land) would involve *a needless extension of Government machinery*, which is to be avoided."

When George wrote this he was almost totally unacquainted with the political condition of European countries; he reasoned from the impressions received in his native country, the United States. Even thus he left out of consideration the working of cause and effect. Instead of arguing: The powerful monopolies which have arisen out of private land ownership have corrupted our Government machinery to such an extent that we cannot possibly entrust it with the administration of the land of the nation; he ought to have reasoned: The destruction of those influences which have made the administration of the United States the most corrupt on earth can alone restore purity of administration to such a degree that we may safely confide the land of the people to their Government; and the restoration of the land to the people is the best way to attain such a reform. If he had gone to Germany he would have found the Prussian State domains the best administered farm land in the country. The States' forests are models of a perfect management. The effects of land nationalisation on employment would render Government employees more independent and less liable to obey unjust dictates from above, so that even the political dangers which he might fear from a further extension of Government influence would be less than under the present administration. A land-owning democracy where every citizen has a stake in the country is certainly less corruptible than a landless rabble.

No fear of Corruption in Tax Collection

And, must we ask, has corruption no influence on tax collection? When we behold American officials, charged with the assessment of personal property, so blind that they cannot see the contents of large palaces full of the most valuable furniture and objects of art, but value them as if they were not in existence, and as if the millionaire who exhibits them daily to his guests possessed bare walls and the simplest pine furniture; when we see the Mayor of Cleveland, Tom L. Johnston, prove to the railway pass-owning tax assessors that their assessments of railway property are made at only one-tenth of the actual value, can we expect such officials to obtain much better eyesight when once they have to tax the State's land values? It is true these are more visible still than the contents of the palace or the property of a railroad, but a much thicker gold varnish is at hand to render opaque the taxing official's spectacles.

Single-Tax the easiest Method of carrying the Reform

"It is an axiom of statesmanship, which the successful founders of dynasties have understood and acted upon—that great changes can best be brought about under old forms. We, who would free men, should heed the same truth."

Certainly the most Dangerous

Perhaps, but not when the old form threatens to bring back the old contents some day. Who guarantees us against a repetition of historical facts, such as those connected with the English land tax? Every land reformer is familiar with the manner in which the landlords used their legislative power to reduce this tax, a remnant of their military duties in times of feudalism, to about one twenty-fifth of its original signification, by leaving the valuation on which it was imposed unchanged

since the time of William III., whereas the value of the land increased twenty-five-fold since.¹

Or take German experience, showing how even those nobles who were compensated for subjecting themselves to the land tax helped in the agitation to have this tax practically repealed by demanding that its proceeds should be used to relieve the rates, which were mostly on the shoulders of the big land-owners. The German "Lex Huene" and the so-called "Landlord relief bill" of the present English Tory Government are twins, but the German case is even more iniquitous. Only a generation had passed since the equivalent of the tax had been handed over to these Prussian landlords in interest-paying State bonds; who could have anticipated that so soon a time would arrive when these very men, while complacently continuing to cash the interest coupons of these bonds, would try to get rid of the tax they had undertaken to pay with the proceeds of these same coupons?

And a time would come also when a new king knows not Joseph, when Henry George's work is forgotten, and when the landholders unite in the fight against this victorious single-tax with the success which united and strong minorities often have gained against divided and indifferent majorities. Shall we, with open eyes, expose our children to this danger? No; the hydra, Land Monopoly, can never be effectually destroyed until we cut off and burn out all its heads, the land titles as well as the rental income. Otherwise we shall see the experience of old Hercules repeated: while one head is being destroyed, others are speedily regrowing.

Rebate of Rent Bill

The burning out has to be done by provisions against such outrages as the "Rebate of Rent Bill" brought in at the end of the 1900 session of the New Zealand legislature. Here we had a Government deliberately attempting to make a present to State tenants of 10% of their rents, which means courting the favour of these tenants by giving to them the land values of the

¹ If this tax had been collected from the actual value of the land as it ought to have been, its proceeds would have redeemed England's public debt, if the debt had been contracted in such a case.

people. Such attempts are doubly reprehensible where, by a 999 years' lease, the unearned increment of ten centuries is gratuitously thrown away, and though the danger is not so great as in the case of a land tax, it cannot be over-estimated. Where the whole of the land belongs to the nation there will be naturally more State tenants than at present, and consequently the number of electors to be influenced by such gifts must be proportionally much greater. Who guarantees us that the Seddon of another generation might not offer to relieve the tenants of half the rent they agreed to pay, or even the whole?

Referendum as a Protection

The case proves the old truism that economic and political reform must go together. The most advanced political freedom has no guarantee of permanence where the economic and social position of the people is on a low level, of which Rome's history supplies the best illustration. On the other side, it is equally true that not only are political arms required to fight the battle of economic reform, but that political reform affords the sole means of preserving the results of victory. The land and its fruits can only be secured to the nation by preventing the servants of the nation from becoming its masters, by giving the citizen the power of effectually carrying out his will through the referendum. Where the constitution cannot be changed without a referendum of two-thirds or three-quarters of the people, and where the new land laws are made a part of the constitution, attempts of the nature just described are effectually barred. (See also Chapter XI.) Anyhow, the possibility of future wrong supplies no ground for continuing the present injury. Efforts for the recovery of stolen goods ought not to be stopped by the possibility of losing them through future theft.

Occupation, not Freehold the old Form

If Henry George wanted to conserve old forms he certainly ought to have fought the freehold, which is a comparatively modern form. In past time very few people in Europe worked their land under any other title but that of tenancy, and even now it is the prevailing system in many countries, in Great

Britain especially, but even in peasant proprietor France. In the United States it is not the rule yet, but soon will be if things progress as in the past. But even supposing the freehold to be the old form, would it be real statesmanship to bring about the great change by this method, as George proposes? The very reverse is true; in fact, his system is the only one which has absolutely not the least chance of ever being carried through. If confiscation should ever solve the land problem, if the people should ever reach the state of mind without which such a measure cannot possibly be carried—looking at might as right—they will not stop at mere taxation; they will take the land and all there is on it. Not single-taxism but communism would be the result of such a mental state, and a much more logical result, too.

Opposition of Land-owners to Single-Tax

For of all the vain delusions under which single-taxers suffer, the worst is the professed belief that land-owners will voluntarily consent to the imposition of the single-tax. They would not dream of such a thing even if the impossible could be proved to them, *i.e.*, that they would gain more through the relief from all other taxes than they would have to pay, even if taxed 20 shillings in the pound on unimproved land values. One of my best friends in New Zealand, a farmer owning about 500 acres, which is by no means a large farm in this country, a convinced socialist, would not listen to single-taxism because he could not see why land-owners alone should have to bear all taxes, while the majority of the people were relieved altogether. That is human nature, and we have to reckon with it. Besides, no juggling with figures could make him see how this relief from taxation of all non-land-owners would not increase his own charges. Leaving out of consideration the fact that all our small landholders in town and country entertain the hope of some day extending their holdings, and thus entering that class which, according to the single-taxers, will have to bear the brunt of the battle, it is rather disgusting thus to play the "beggar your neighbour" game.

Appeal to the lower Motives

"Vote for this law! It will not hurt you; it will only weigh upon the richer men!" is certainly not a battle-cry apt to inspire a nation. This appeal to the lower instincts invariably and justly proves to be a bad policy. If, in this instance, it were effective, the single-tax would give no final satisfaction; far beyond the intention of its apostles, the ultimate goal would be sought.

Danger of mixing Land and Tariff Problem

Another serious objection to the single-tax campaign is that, by substituting a tax and practically a tariff problem for the great land reform, it shifts the entire battle-ground, to the great disadvantage of the reform. Many people who are enthusiastic for land restoration do not believe in free trade: the aim and outcome of single-taxism, which preaches the substitution of the land tax for all other taxes and duties. It has been the cause of creating antagonism to land reform from motives absolutely strange to the same. A man may honestly believe that protective duties benefit his country, and still he may be an ardent land reformer. The intermixture of tariff legislation and land reform has thus done a great deal of harm, especially in the United States and the British Colonies. In these countries many enlightened men are thorough protectionists who, in that respect, have to stand up against men with whom they are united in the fight for a much more important issue.

The Mortgage the most serious Obstacle

But all this is nothing compared with the most serious obstacle in the path of a single-taxer, the mortgage. To tax away the rental value of the land destroys the best part of the mortgagee's security, and mortgagees are smart enough to be perfectly conscious of this fact. They would be absolutely unmindful of their interests if they did not carefully watch the chances of success which single-taxism might have. Long before its principles could ever be embodied in a law, mortgages would be called in all over the country. It can easily be

imagined that in these circumstances new mortgages could not be contracted, and nothing would remain to the unfortunate land-owners but to submit to a public sale. The prices which the land would fetch in such a market would not pay off the mortgage, and the mortgagee would not only enter into possession of the land with all its improvements, but probably also of his debtor's other property as well, while the poor mortgagor would be completely ruined. Do single-taxers really believe that our farmers will join their ranks with such prospects before them, never mind what the future effect of the measure may be? I, for my part, have never yet met with such self-sacrificing farmers in my life, and I have known a good many. Individualists as they are, you could much sooner obtain their adhesion to communism pure and simple, which, at least, would give them an equal share in the total wealth.

Cutting the Dog's Tail. piece-meal gives more Compensation than immediate Land Purchase

Difficulties like these are too glaring to quite escape the notice of George and his followers. As is usually the case, where the straight path has been left concession has had to follow concession, each step taking them farther away from the original goal: Land restoration. They came to the conclusion that it would not do to cut the dog's tail all at once, but that a gradual increase of the tax until the twenty shilling in the rental pound or one shilling of the capital value pound have been reached, would be the only method likely to be carried. They—the radical anti-compensationists—do not see that this system would leave much more of the unearned increment in the hands of the present land-owners than a rational system of land nationalisation. It is easy to prove this.

The most optimistic single-taxer will agree with me that, even in as progressive a country as our New Zealand, it would under no conditions be possible to increase the present penny tax—from which, moreover, most land-owners are exempt, or the law could not have been carried—as much as half a penny in the pound for every legislative term of three years, especially if exemptions are done away with. However, even at this extraordinary rate of progression, which could never be carried through, it would

take 66 years to obtain the full rental income for the State. During these 66 years the land-owners would continue to draw the unearned increment, though in a continually decreasing ratio. So the very party who are in deadly opposition to any kind of compensation, whose founder even charged those who want to give compensation with a desire to prevent abolition altogether, this very party proposes a programme which, as I shall now show, takes the odium of confiscation on its shoulders, and yet gives actually much more compensation than land nationalists, who want to purchase the land at its full market value. As Joseph Hyder, the able general secretary of the English Land Nationalisation Society, said in a paper of February 8, 1899: "The real controversy is not between compromise and no compromise, but between two or more different compromises; not between compensation and no compensation, but between two or more different methods of compensation. For to say that landlords shall keep all the rent, less whatever tax can be levied upon it, is in reality to offer compensation in the hope that it may afterwards be cut down by taxation."

The most Practical and Honest Method

Now let us find out what could be done by honest compensation. The State would purchase the land at its present price, and would issue debentures for the amount. The question whether these debentures are to be given to the land-owners, as Mr. Edward Withy proposes in his excellent pamphlet, "How to nationalise Ground-rent," or whether the land-owners are indemnified from the proceeds of the debentures sold in the money market, is a mere question of expediency. In either case the State can realise a benefit from the very beginning, through the difference in the rate of interest paid by the debentures and the land values respectively. We may not find everywhere such a difference in favour of the State as was found in Ireland, where the Ashbourne Acts used it for the purpose of buying the land for the tenants. When we shall have occasion to revert to this operation we shall see that, in spite of a rent reduction of 25%, the State was enabled to pay for the land within 46 years, by the mere profit made between the rental income of the land received and the interest paid out on the consols issued

for the purpose. The difference between the $3\frac{1}{4}\%$ at which New Zealand could at present obtain the money through bonds secured by the rental income of the country, and the 5% (20 years' purchase) at which the rent of our land values is calculated, permits us to redeem the bonds within the same period, as we save the Irish rent reduction of 25% .

Another element, however, which was left out of sight in Ireland, to the great injury of the State, must be taken into consideration. It is the rise of land values in a progressive country. Charles Wicksteed, in the "Land for the People," calculates this increase by itself, in England, will repay the bonds within 40 years. The increase is, however, much more rapid in New Zealand, where, within the memory of living man, the present value of the unimproved land of over 84 millions has been created. It is true that between 1891 and 1899 the Government valuation shows only an increase on unimproved land values of about $1\frac{2}{3}\%$ a year; but after land nationalisation the percentage would be much greater through the influence of the new state of affairs. When in later chapters I present a fuller conception of the deleterious effect of our existing land laws upon our economic development, it will be possible better to appreciate the great influence on this development expected as a result of land nationalisation and the inevitable outcome of progress. A rise of rent is bound to follow, a rise which will exceed all our present anticipations, without our having to dread rack-rents in a country that has millions of acres still in the bush state, and millions more that are not utilised to anything like the productive use they are capable of. On the other side, the rate of interest may rise for short periods, but it has a tendency to fall; and when we shall enter into the reasons of this phenomenon, we shall also see the accelerating effect which land nationalisation is bound to have on the process. It is impossible to estimate the exact collective effect of all these causes; but I have come to the conclusion that the difference between the income of the State from the nationalised land and its payments for the interest of the bonds by means of which the land was purchased will permit the redemption of the bonds within 20 years, possibly within 15 years. Ten years more might be required if part of the income is used for old age pensions from the beginning. The land will thus be honestly paid for, and

yet the people will have given less unearned increment to the land-owners than the confiscation system, which leaves them the full rental for 33 years, would have done. If my calculation is thought an optimistic one, it is certainly not so optimistic as the hypothesis on which I assumed the 66 years required by the single-tax for the complete nationalisation of the rent.

Instead of purchasing the whole land at once, the State might do so by instalments, as she is doing to-day. However, this would entail two great inconveniences. In the first place, too much room would be left to personal influences exercised either in getting the State to hasten or to postpone the purchase of specific properties, according to the advantage anticipated by the sellers. In fact, accusations of this nature have already been preferred regarding certain purchases made by the New Zealand Government.

In the second place, deferred purchasing might considerably raise the price the State would have to pay through accruing unearned increment : the rise in value.

The State's Right of Pre-emption at present Prices

The only way to prevent this latter inconvenience might be to fix once and for ever the price at which the State shall have the right of pre-emption ; but the reproach would not be unjustified that this right would entail a certain amount of confiscation, though by no means so palpable as that of the single-tax scheme.

Parties who paid more for land than its present rental warranted because they counted on the future increase, willing, meanwhile, to lose a certain amount in interest and taxes, would find this hope cut off ; because, at the period when the higher rental would under existing conditions ensure them the higher selling price, the State would step in with its right of pre-emption at the old price, and thus deprive them of the expected compensation for their outlay. If the State took their land at the present market price, they would have no right to complain, because this market price includes the present valuation of future expectations. The moment, however, that a law cuts off these expectations, the market price would at once fall con-

siderably ; and this difference between the two market prices gives the exact measure of the amount confiscated by the new law.

Something might be said on the other side, though. The law-giving power of the community is continually exercised to the detriment of one class or to the profit of another, without any compensation on either side. When a duty is abolished, we do not dream of compensating merchants who hold a certain stock of the article for which they paid the duty ; though they may have to lose the amounts thus disbursed because their competitors who now import duty free can undersell them. Nor does Government, when it imposes a new duty, make a claim against those who imported goods before the new law took effect, and thus make a profit. Nor did I ever hear of compensation to manufacturers for new labour laws : limiting working hours, allowing claims to the workers for accidents, or entailing a compulsory raising of wages through arbitration, never mind how much these laws may affect the business prospects.

Building Regulations do not affect House Rents, but Land Values

New building regulations are bound to exercise a certain influence on building land, and yet I do not think it is usual to compensate land-owners in such a case. In no country, except England, perhaps, do we find greater veneration for vested interests than in Germany ; and yet when—several years ago—new building regulations were adopted for certain suburbs of Berlin, which restricted the height of houses below the limit permitted in the interior of the city, and which made compulsory a larger area of open space to each house, though there was a great outcry I never heard of any demand for compensation. Still, it was inevitable that these regulations should, for a time, influence land values injuriously, as observers of the laws followed by landed property had maintained against superficial reasoners who pretended that the law would raise the price of houses and rents. Rents do not fall where, as in America, buildings over twenty stories high—the so-called sky-scrapers—are permitted ; nor do they rise where only one-storied

cottages are allowed ; but where twenty stories can be built on a given area, the price of the land will necessarily be higher than where only one story is permitted. In the one case, the land-owner alone is benefited ; in the other, he alone loses. *Rent determines land values, not land values rent.* The height of rent corresponds to the squeezability of tenants ; the value of the land to the price obtainable for the squeezing privilege, a price entirely dependent on the extent of the squeezing power.

Taxing vacant Building Lots

Conservative Germany does not stop at this inroad upon the vested rights of speculators without any compensation. The privilege has lately been given to Prussian towns to introduce a new system of taxing vacant building lots ; and in one town after another, the municipalities make use of the privilege, to the great advantage of the tax-ridden citizens. The old system was to rate according to actual revenue, which left these lots practically tax free ; the new plan is to rate them according to potential revenue, *i.e.*, the revenue which could be obtained by building houses on the vacant land instead of waiting for a future rise. Of course, the speculator who bought in the hope of an eternal continuance of the former injustice loses through the reform ; and yet nobody dreams of compensating the poor fellow.

It is strange that progressive New Zealand has not as yet introduced this simple reform, which ought to be acceptable even to those who are opposed to leaving improvements untaxed.

There is no necessity to shift the basis of rating from rental to land values for this purpose. All that is required is to tax the rental which the vacant land would fetch if leased for building purposes, instead of rating on agricultural rents in the midst of a growing city.

Defence of Non-Compensation

A strong point in defence of non-compensation was made by Mr. Geo. Fowlds (M.H.R. and President of the New Zealand

Single-Tax League) in the *New Zealand Herald* of June 3, 1900, replying to a correspondent of that paper:

"Mr. Upton asks: Most of the land in New Zealand having been bought from the Government, would it be right on the part of the Government to deprive the buyers of the whole monetary value of the land so bought?

"Without compensation? Certainly not. I never made such a proposal, and I don't know of any single-taxer who ever did. What I have said is that, taking the land-owners as a class, they have been compensated by the Government in the form of services to the extent of three or four times the amount they have paid to the Government. Even then I don't propose that the Government should suddenly stop the process of compensation, but that they should gradually stop it by charging the land-owners an increasing proportion of the cost of the services rendered them every year. In addition to this, we propose compensating them further by abolishing all the taxes at present paid by them. Surely Mr. Upton should understand that all taxes are only a payment for services rendered, and any rational discussion of taxation must consider the question as to who receives the value of Government services.

"The contention of single-taxers is that the value of all public services is expressed in land values, and that the land-owner possesses the power, which he never fails to exercise, of collecting the value of those services in the shape of rent. That the landless, having paid their share of the cost of public services to the land-owner in rent, are robbed when the Government calls on them to pay a second time in the form of customs and other taxation."

It gives me pleasure also to quote some of my friend's closing words in this discussion, which allow the hope that he and his fellow single-taxers, with the exception, perhaps, of a few incorrigible fanatics, will yet join hands with land nationalists to win the great battle with united forces:

"The British generally solve their difficulties by compromise, and it is possible that Mr. Upton's suggestion of buying out the present owners may be adopted before a final settlement is reached, but I could not admit that such a course would be a

fairer way than a gradual change in the incidence of taxation, which I advocate."

I do not wish my friend to surpass me in generosity, and I make concession for concession. I may, therefore, freely tell him that, if through the opposition of landlords land nationalisation on the basis of compensation had no chance of passing, I should be quite ready to serve them as Abraham Lincoln served the confederates when he confiscated their slave property. We poor human beings sometimes have to decide between two evils, and in this case confiscation once for all directed against a comparatively insignificant minority is certainly a lesser evil than confiscation of the majority's earnings carried on for ever.

The Freehold doomed

Fortunately, in New Zealand, at least, there is little fear that we shall ever have to use revolutionary means. Our islands are inhabited by a law-abiding people, who prefer evolution to revolution. Extreme parties have comparatively few followers. I may be mistaken, but I believe that single-taxers have frightened as many liberal thinkers away from land reform as they have converted to its just principles. Their non-compensation fanaticism has been the best ally of their conservative opponents, just as these have given them the strongest support by their uncompromising championship of the freehold. The freehold has played its part in human history. As a reaction against wasteful land communism, it has done good for a time; but since it has become less a safeguard of the honest worker than the most formidable weapon of oppression in the hands of the drone, its days of usefulness are over. Lord Gobbleland and his partners in the city, with safes full of land-mortgage deeds, find less and less following among the hard-working men behind the plough and work-bench who own some encumbered freehold. The hard facts of everyday life begin to teach these small freeholders the important lesson that land reform will benefit them far more as workers than it will make them lose as land-owners. Once these men have found the camp they really belong to, the power of old-time conservatives will be gone for ever. If the latter are as prudent and far-sighted in their

political capacity as they have been in money-making they will understand the signs of the times, and will not be fools enough to throw themselves into the way of the wheel of progress, when there is absolute certainty that, though they may slightly impede its advance, their crushed and mangled bodies will mark the track of its final course.

Unearned Increment made by Public Improvements

It is curious that the same speculator who demands compensation when any new law cuts off some future increment he counted on will not dream of offering a part of the profit he makes through the construction of a new road or railway to the State which made the improvements. In fact, it is notorious that in the past millions upon millions have thus been thrown into private pockets through the work done by other men or by the community, while the owners of these pockets have taken no share in this work.

The Manawatu railroad, completed in 1886, has cost £767,665; seventeen years later, in June, 1900, the increase of land values along the road was estimated by the *New Zealand Times* at £4,000,000. Part of the increase has benefited the Company, to whom a certain amount of Government land had been given as a subsidy; but the bulk probably went into the pockets of men who never took a single share. When Sir Julius Vogel carried his great improvement scheme—to which a great part of the public debt of New Zealand is due—he proposed that the community should reserve alternate sections along the planned roads. Private speculators were too powerful to allow such a scheme to pass, and private speculators have pocketed the millions of increment created through the new roads. It is not too much to say that if the community had kept the land alongside the roads, only leasing it at periodical revaluations, instead of selling the fee simple, by this time the entire debt contracted for the roads would be paid off. Will the Government be any wiser, or rather, will it be better able to withstand the onslaught of private speculation in the case of the new roads under construction? Will the community benefit by the work it pays for, or will the main profit go to speculators fortunate enough to

monopolise the land along the road mostly to be benefited by the new means of communication? We shall see.

Limitation of Right of Pre-emption

Anyhow, the right of pre-emption to be given to the community might be subject to certain limitations to prevent it from hitting not only the speculator, but also the *bond-fide* settler. The latter might be exempted from the operations of the law for land not exceeding a certain value; and this exemption might even be extended to his direct heirs whilst they continue to occupy the land personally. It is demanded by equity, at least, so far as our colonies are concerned. The pioneer who settles in a wilderness has to encounter many troubles which later comers are exempt from, troubles which he would not undergo if the unearned increment did not supply an inducement. We might, however, secure him that unearned increment which he obtains by his personal use of the land, without leaving him that which he wrings out of others using the land after him. As long as he cultivates the land, let him enjoy the low rent which he pays on his perpetual leasehold, or in the form of the interest of his lower purchasing price, in case he has a freehold. We may even leave this advantage to his direct heirs as long as they, too, are *bond-fide* settlers; and it will be an inducement for them to remain on the land, instead of selling out, for, in case of selling, they would only obtain the price which their land had when valued at the time the law was passed. This would mean a decided loss to them, and few would give up their heirloom which, as long as they work on it, yields them an income far in excess of what is due to their labour at market value. The community gives them this reward for the pioneering work they or their fathers have done, but this reward lasts only whilst they are *bond-fide* settlers. The very moment they want to sell, they become speculators in land values, and any profit made in this way is confiscated by the community, which thus obtains the increment due to increase of population or national wealth, and not to the personal work of the settler; the settler being fully compensated for this work by retaining a claim for his improvements, and by the low price at which he had the use of the land as long as he did use it. The State's right of pre-emption holds also good in case the settler lets his land.

This does not apply to farmers only. The man who bought a piece of ground in a Wellington suburb at a time when it was only sparsely settled helped to attract other settlers, and thus created—to a certain extent—the increased value of his land. As long as he and his direct descendants live on the land without selling or letting any part of the grounds, and under the supposition that the value of the lot does not at any time exceed a certain limit, let the exemption operate. There is no need, however, to give him the increase of its value when he sells or lets the land or leaves it to an indirect heir. In this case the community takes the unearned increment by purchasing at the original valuation.

Effects of the Law

A law of this nature would have the advantage of effecting at once an immense deal of good by doing away with the dog-in-the-manager policy of land speculators, who now hold land for a rise. Such a rise would no more benefit them. As soon as the rental income increased sufficiently to pay the interest on the bonds for its purchase, the State would step in, and would make use of its right of pre-emption at the old valuation. With such knowledge, nobody would be inclined to pay more than that valuation, the land would be lost at purchase price just at the time when the increase of rent began to yield a profit. Nor could the speculator forego present interest on his investment in expectation of compensation in the future through a profit on his purchase price. The new law disappoints this expectation, and forces him either to put his land to the best use or to sell. Building land in our towns will come into the market in large quantities, and prices will go down until they become accessible to purses which at present cannot afford to buy.

In agricultural land, the speculator will equally yield the place to the farmer, and where the two are found in one and the same person, farming will gain where speculation loses. Here we have a farmer who holds 10,000 acres which he uses as grazing land. As such, it does not pay more than a very moderate rate of interest; in fact, not more than he has to pay to the mortgagee; but he knows that in a few years the increase of population will so raise the price of this land that

the profit he can make in selling it will amply repay for the meagre income of the past years. Therefore he keeps the land in a semi-barren state, while men inured to hard work would willingly give it high cultivation if they could but obtain it at a reasonable figure. The new law, by cutting off all expectation of a rise in price, would at once induce the farmer to offer his land, or most of it, to the highest bidder, retaining only a small section for his own intensive cultivation. Thus, under the new law, the worst curse of landlordism will all at once begin to disappear even before the State has taken up a single section.

Tax and Take

If Henry George had advocated some plan of this sort, land reform would have progressed much faster, instead of being hardly further advanced, perhaps less hopeful in his own country at the present date than it was fifteen years ago. Confiscation has no chance to succeed unless it be through a bloody revolution—which may come there sooner or later—and then much more than the land would be taken. Great Britain is differently circumstanced. The imposition of a higher land tax may have a better chance there for the present than land nationalisation, through the fact that the Upper House can prevent the latter, but cannot reject tax bills. There may be hope of success for the principle of British land nationaliser's "Tax and Take"; which means, tax to reduce land values and purchase at the reduced value after the House of landlords has been frightened through the tax into conceding land nationalisation. The valuation for the tax collector might be left to the land-owners, with the privilege for the State to purchase at such valuation. The colonies, however, are likely to adopt land purchase as their most practical method of land restoration. New Zealand especially has already made a good move in this direction, not only by valuing land separately from the improvements, and taxing only the value of the land, but by making a practical beginning with land purchase.

Lease in Perpetuity

The time cannot be far off when her statesmen will recognise that such a valuable instrument ought to be applied to a far

better purpose than the mere breaking up of large estates; strengthening the tree Landlordism by increasing the number of its roots. The land so obtained, as well as that yet in possession of the Crown, ought not to be sold, under any condition, or in any form. Certainly not in that hypocritical form called "Lease in Perpetuity." As such leases are free from any future re-valuation, the present rent running for 999 years without any increase, the system is practically a sale in fee simple, with the advantage for the buyer of not having to pay up a single penny, while obtaining the loan of an eternal mortgage. It is a blot on New Zealand's statute-book. Nor can the Premier under whose administration the law was passed plead ignorance, for he wrote the following passage in an article contributed to the *Dunedin Echo* of April 15, 1882, signed with his full name—*J. Ballance* :

"Mr. George would not pay from the public exchequer for the economic errors of society in the past, but would make the individual who accepted the guarantee of the State the victim of national wrong-doing. To state this doctrine is to condemn it; and it is *the* blot on a work which, so far as it refers to the economic advantages of State ownership, has comprehensively and conclusively dealt with the subject."

The same man who wrote these lines, which show how fully he recognised the duty of the State to stop the "national wrong-doing" of parting with the nation's property, signed an Act which deliberately parted with the unearned increment of the next ten centuries to short-lived individuals lucky enough to apply for such leases in perpetuity. I am told he yielded to strong pressure brought upon him, and that it was the only way of carrying through the Land Settlements Act; that it was a question of freehold or 999 years; that only thus could a wedge be driven into the freehold superstition; that the Act prevents anybody from leasing more than one section, and demands occupation. His resignation might have brought in the landlord party, who would have perpetuated the stealing of the birthright of unborn generations as in the past. Let us hope that a man with as much good intention, but with more backbone, will soon arise to right this foul wrong, and thus gain an everlasting claim upon the gratitude of posterity.

The worst of this gift of a thousand years' increment is that it was an entirely gratuitous one, for not an acre of land less would be improved if, instead of this outrage of an unchanging rental for all eternity—I beg pardon, for only 999 years—periodical revaluations had been instituted ; the more so as this system already exists in our statute book. It is true it exists only with the right of purchase given to the tenant, which ought certainly to be abolished in any case. With these changes in the present system, and the extension of the law's applicability to the whole land of the country, urban land included, a new era would begin for New Zealand, and for the world, to which it supplies a valuable object lesson.

Administration of the Public Land

The system of administration of the public land need not give us much concern. We have enough precedents to prove that the officials of public bodies are as capable of undertaking this work as the agents of our landlords. The Prussian administration of the royal domains may be considered the model of a perfect management, and the Birmingham administration of the land belonging to the city is accounted as, at least, equal to any management of private landlords. Neither will the question how the management and revenue is to be divided between the central and local governments offer insuperable difficulties. The

Length of Leases

or rather, the periods of revaluations of rents, presents a more disputable field. In any case, I do not think that these periods ought to extend as far as many leases of city property given by English landlords, *i.e.*, 99 years. The only advantage which the private land-owner may find in such long terms does not exist for public bodies. The former has the tendency to prefer advantages obtainable during his own life to the superior opportunities of his successors. A tenant who obtains a 99 years' lease will certainly pay a somewhat higher rent than he would for a shorter lease. The additional amount thus realised by the lessee may be a mere trifle when compared with the loss

in the next generations, with their largely increased rental values ; but the proverbial bird in the hand will not fail to claim its superiority over ever so many in the bush. Public bodies, however, are longer lived than individuals, and though, unfortunately, often addicted to a very short-sighted policy, are not quite so inclined to sacrifice the future for the present. The long-lived lessor will find it good business to take advantage of the short-lived lessee's natural inclination to value the shilling which he himself enjoys higher than the pound which he might save for his unborn heir, and to prefer shorter leases at lower rents to longer leases at presently higher—but in future much lower rents. The privilege reserved by English landlords of confiscating improvements after the longer lease has run out does not add much to the inducement of the long lease, and prevents improvement on the property towards the expiration of the lease.

City of Wellington Leases

I should prefer the system adopted by the City of Wellington in its leases of the reclaimed land (land formerly covered by the sea). The land is leased for a term of 21 years at a stipulated rent. The tenant has to pay rates, taxes, assessments of any kind. At least six months before the expiration of the lease the tenant can demand a valuation of the rent for another term of 14 years, and so forth. Three valuers are appointed ; one by the tenants, one by the corporation, and the third by the two valuers thus appointed. In ascertaining such new rental, the valuers shall not take into consideration the value of any buildings or improvements then existing upon the premises, but they shall value "the full and improved ground-rental of the premises" that ought to be payable during the new term. The corporation prescribes the kind of building which the tenant has to erect on the land. The tenant has a right to have his lease renewed by the corporation at the new valuation. If he does not demand a valuation, it means that he has no wish to renew the lease ; and the corporation enters into possession of the land and improvements without paying for the latter. The tenant's only chance to get compensation for them is to find a person who will take the lease off his hands and pay him something for the improvements.

Risks of the Tenant

Of course, it may happen that these improvements, though they have been very costly, are worthless under the circumstances. Let us suppose, for instance, that when the tenant took the lease, the quarter of the city that he erected buildings in was looked upon as a fine location for residences, but, through the growth of the town, had become a business locality—as has occurred in certain portions of New York City—and in consequence of this change, the ground-rent for the land has been considerably raised. In this case he could only recoup by increasing the rent of the residence built on the land, which is impossible, because the locality is much less desirable for such a purpose than it was before; whereas its inner arrangements render the house absolutely unfit for business purposes. As the rent can thus be recouped only by pulling down the house and building business premises on the ground, no tenant could be found who would pay more for the house than what can be obtained from parties contracting for its removal. Or business premises might have been erected which were perfectly suitable 21 years before, and paid well at the lower rent; whereas now, when the rent is raised, only a building of much larger dimensions could be made to pay. If the land were freehold, the owner would not hesitate to pull down the old building and erect a new one, provided the increased rent not only pays the interest of the new building, but also soon refunds the cost of the old one; or in other words, provided the unearned increment obtained from his land amply compensates him. But under the changed conditions this increment goes to the community, and tenants, in tendering, have to take into account any possible loss on their improvements. They will not rent unless they feel sure that the rent they pay will allow them to lose on the improvements when the lease runs out.

The condition that the tenant has to pay rates, taxes, and assessments of any kind under the Wellington system renders a special

Betterment Clause

unnecessary, which, however, ought to be inserted in every rating Act. Any increase in the rental value directly traceable

to public improvements made in the neighbourhood of any property ought certainly accrue to those who pay for such improvements. Even under the Wellington Corporation leases, where the city benefits by such improvements after 21 years, there is no reason why the lessee should obtain the full benefit of any betterment through public improvements made while his lease runs.

A new tram line passes the land he holds ; a railway station is erected ; a park is opened in its immediate neighbourhood, or the street is widened. All this is done at the expense of the public. It would certainly not be fair to make a present to the lessee of the increase in rental value thus created, which was not expected at the time the lease was made ; to let him reap where others sowed. The betterment clause would force him to contribute to the improvement in proportion to the profit he derives from it, giving him the benefit of the doubt as to the exactness of the assessment.

Lease of Hamburg's Free Port

A very valuable lesson as to land administration has been supplied by the little State of Hamburg, in Germany. When the new free port was constructed in 1884, a contract was made between the senate of Hamburg and the Norddeutsche Bank, by which 30,000 square metres of the 40,000 square metres (11 acres) belonging to the State in that section were—not sold, as our short-sighted New Zealand authorities sold the land traversed by our railroads—but leased to the bank, on terms which left in the possession of the community the increase of value certain to follow the improvements it created. It was done without any oppressive condition against the bank, and the company founded by it—which both did a profitable business. The State became, so to say, a partner of the company, putting in its land against the company's capital. The buildings were valued at 300 marks (£15) per square metre, while the State put in its land at 500 marks, and shared in the profits at the rate of 5 to 3 ; every surplus beyond $3\frac{1}{2}\%$ being counted as profit. In this way the State has received a yearly rental of 525,000 marks since 1889 for its 8 acres. But that is not all ; for, beyond its share, the State obtains another 10% of the net profits made by the company,

after the $3\frac{1}{2}\%$ and a moderate reserve are deducted, and this 10% , with the accumulating interest, is employed to purchase for the State shares of the company. A yearly lottery determines the numbers which have to be given up for this purpose at par. In the year 1900, the State had thus obtained shares to the amount of 223,000 marks. Finally, since 1899, the State has the right of purchasing the remaining shares at a price not under 110% and not above 150% (from 22 to 30 shillings per pound). It is calculated that without paying out a single penny the State will own the whole property within 50 or 60 years. The *Deutsche Volksstimme*, from whose 2nd August number of 1900 I extract the above information, says that this system, which thus rescued the land from private speculation and made it subserve the public interest, has in no way hurt the development of the Hamburg free port; nor have buildings of inferior value been constructed on the leased ground. On the contrary, the buildings, constructed on plans approved by the State, are of a superior quality, and the company has not found the least difficulty in obtaining mortgages. Eight million marks have been borrowed in this way on a building value of about double the amount. The dividend has been 5% of the capital invested, which in Germany is considered quite satisfactory.

Contrast with such far-seeing Policy that practised in Australasia

where the State as good as gave away the land of the people to enrich private speculators. When we hear of £750 a foot frontage paid in Sydney, in 1900, for land opposite the Post Office—land once belonging to the people, and sold for a trifle—we cannot understand how our legislators can waste their time on idle personalities and party squabbles instead of setting their heart to right so grievous a wrong, or at least trying their best to stop the further waste of the public domain. Daily, hourly the same misdeeds are perpetrated before our eyes. Millions created by the people's sweat are allowed to swell the wealth of a few rich men. A single walk through one of our colonial cities ought to bring the blush of shame to our legislators' cheeks. In one part of the same they see thousands of people crowded in slums; in another wide fields meet their eyes,

with cattle grazing, until some speculative land-owner exacts his tribute from workers wishing to erect homes.

Close Building

Yet land reformers have been accused that their success would produce close building. Certainly closer building where acres are kept waste by speculating holders, possibly by wills of former owners, dead men who command that the living have to go miles farther out than they want to ; so that tramways and 'buses, water and gas pipes, drains, telephone wires, pavements and side-walks have to be extended without any necessity, thus uselessly doubling municipal rates.¹

But with equal certainty there will be no such close building anywhere as we now find in our slum districts. Why, the population of Auckland and its environs might easily exist on one-half of the present area, and still every household could be supplied with a building lot of over a third of an acre, after enough space has been reserved for commodious roads and sufficient parks.²

But under common land ownership, when the increase of rental values would flow into the pockets of the community, transit could be established rapid enough to bring the tenth mile from the Post Office nearer than the fourth is at present, for the higher rents of the land thus opened up for suburban dwellings would pay for the outlay. The citizens who want large gardens could thus be suited without requiring more time to reach their place of business. These people could as well as now afford the enjoyment of such gardens and parks. The sacrifice would not be greater, for the rent paid to the community would

¹ In this way most of Auckland's suburbs cannot afford to pay for public water-supply and drainage. If the speculators' open spaces were built upon the increased number of inhabitants, or the reduced area of the suburb, would lessen the cost of such public works sufficiently to at once permit their installation.

² I calculate that about 10,000 households now exist on an area of 10,000 acres, or about 16 square miles. Taking off as much as 1,500 acres from half this area for roads, parks and public buildings, the remaining 3,500 acres would give over one-third of an acre, or a building lot of 70 ft. by 200 ft. to each household.

simply take the place of the interest on the purchase money of their estates, which they now forego for their private pleasure.

Szegedin and Galveston

Our system is, anyhow, the greatest enemy of safe and hygienic sites for cities. We cannot find a better illustration of this than Szegedin and Galveston. The former became a victim to the floods of the Theiss in 1879, the latter to the waves of the ocean in 1900. For both, better locations could have been found, secure against the recurrence of such catastrophes. But in such an alternative, the landlords would have lost the value of their sites ; therefore new houses were built, and cities arose on the old inconvenient locations. In any similar emergency, were the community its own landlord, it would at once condemn the old place, and would select a better position for the new town.

Fanaticism on special Methods kept us back

We should be much farther advanced if it were not for the stubborn zealotry of single-taxers, who insist on their special "ism," oppose all other methods proposed, and thus prove the worst enemies of land restoration. The final answer I usually get from their leaders, when I have driven them into a corner, when they can no more gainsay my arguments, is : " Let this proposal (of compensation) come from the land-owners, not from us ! " As if land-owners all over the world were not perfectly satisfied with their monopoly ! As if they could be expected to initiate land reform of any kind ! Many of them will oppose both land nationalisation and the single-tax ; but whereas we can get them to meet us halfway on a plan of compensation, they would fight tooth and nail any attempt at confiscation. America had a civil war of four years' duration on less incitement. The proverb says : " Build a golden bridge for your enemy," and it is for us to propose fair means and ways to attain our end ; we must not wait for the other side to take the initiative. If they do take it, it will be on the lines of British landlords when they passed.

The Ashbourne Acts

for Ireland, which strengthened landlordism by widening its base, just as our own Land for Settlement Acts have done.

However, even the Ashbourne Acts—although they merely created new land-owners—have rendered a great service by showing how easily compensation can be carried through without costing the people one single penny. We have already seen how the land was paid for by means of the difference between the cheaper interest rate at which the State could obtain the purchase money, and the higher rate at which the rent was capitalised in the land price. In this way, though a reduction of rents to the amount of 25% was allowed, the land is paid for within 46 years. But instead of belonging to the State at that period, through whose good credit the operation had become possible, it was made in favour of certain privileged individuals, besides the former landlords. The tenants who accidentally were in possession at the time of the law became landlords without paying a single penny, by simply continuing to pay their old rent, reduced by one-quarter for the next 46 years, unless they preferred to purchase right out at the official valuation. The *Times* of January 28, 1890, gives the inevitable results. One tenant bought the farm he cultivated at £550, and sold it, subject to the repayment of this sum, for £970. Another farm bought for £538 was sold, subject to the purchase money, for £1,280. One which had fetched £755 was sold by the fortunate tenant who obtained possession of it through the new law, subject to the purchase money, for £1,725. £3,975 profit were made in these three cases; more than three-fold the purchase money was obtained. Those who bought at such onerous terms pay, in the shape of interest, a more burdensome rent than their forerunners, when their state of distress resulted in the legislation which, from oppressed, made them oppressors. It matters little whether the title under which the power of oppression is exercised is that of the landlord or that of the mortgagee, whether the tribute is called rent or interest, whether the oppressor is the nobleman, whose ancestors had conquered the land, or the former tenant, who has been fortunate to enter into possession when the new law passed, and who retires from active work,

supported in a town by the new tenant's or mortgaged owner's labour.

The Capitalist the worst Landlord

Experience shows, in fact, that the capitalist usually proves the worst master of the two. When even he disappears from the scene, through the sale of his mortgage, the case becomes more desperate still for the poor mortgaged farmer. As I already pointed out in the case of the French cultivators, the lord who once owned the land had at least some sort of personal connection with his tenants. He probably had been born and brought up in the castle, had known his tenants from childhood, and his exactions were frequently tempered by some kind of feeling, unless he was an absentee landlord who left all powers to his agent. To the Savings Bank which buys the mortgage the question becomes one of mere figures: it is no more a question of one man's relation to his fellow-man who works for him, but that of the impersonal Capital to its interest. The right of Capital to interest has become such a self-evident one; that anybody who refuses to pay his interest dues is considered as defrauding Capital of its rights. Neither can the Savings Bank be blamed for not granting facilities, as it is merely the agents of others who have brought their savings. The real landlord is yonder poor widow, who has invested her few savings in the bank; or perhaps the farmer's own labourers, who have not the least idea where their interest comes from, and dream not that they are the oppressors of their poor master, who bitterly refers them to his own misery when he refuses to raise their wages.

England has thus shown how compensation can be given without any cost to the taxpayer, but instead of using the system for the nationalisation of the land, she has made it an instrument to strengthen landlordism.

Germany's Land Reform in China

Germany, on the other side, in her Chinese colony, has made a beginning of land nationalisation, though not on the best system. The State buys the land from the original occupiers at

a certain price based on the land-tax paid by them, or rather the land-rent, as the soil of China nominally belongs to her Emperor. The land is then sold to the settlers at the market prices resulting from supply and demand. The right of pre-emption is reserved to the State, in case the buyers want to sell at any future time. If the Government makes no use of this right, it demands a tax of 2% on the selling price, and furthermore, one-third of the unearned increment, of the profit made on the original price—of course, taking first account of the improvements made by the owner. This third has to be paid, anyhow, once within 25 years, whether the land changes hands or not. In addition to this, a yearly tax is demanded amounting to 6% of the selling value of the land. This tax cuts off the soil under the feet of land-hoarding speculators, who, besides the interest on their outlay, lose every year as much as 6% of the selling value of the land they leave unused; and, in the best of cases, they have to give up one-third of their final profits. It is understood that the 6% cannot be deducted from the profits from which the State gets her third. As the tax is one of the conditions of the purchase, all the advantages of a land-value tax are reaped by the State without the stigma of confiscation.

A valuable proof as to the progress land reform has made in Germany since the German Land Reform Society was founded, through my instrumentality, in 1888, a time at which the mere idea of land nationalisation was generally ridiculed in the Fatherland, is furnished by one part of the address with which the Government's representative, Contre-Admiral Tirpitz, introduced the new law in the Reichstag. He put stress on the fact that the financial point of view had stood in the second line only in the motives which caused the Government to bring forth this law. Better than this, a representative of the "Bund der Landwirthe," the league of the Agrarians, Germany's big land-owners not only approved of the law, but would have liked to see the third of the State's share in the profits raised to one-half. The manner in which this progressive law may affect the development of the German colony will be shown when the present political complications are got over. This procedure on the part of a monarchic State throws a strong light on the backwardness of our democratic New Zealand, which

purchases the land from its present owners merely to give it away to new landlords.

Our Colonies' suicidal Land Policy

A new colony cannot commit a greater fault than to sell its land ; there cannot be a more invidious and dangerous way of raising funds. No money that flows into the public treasury can be more costly. It is selling the nation's birthright for a pottage of lentils. Land is sold right out at a price which, a number of years later on, would in some cases be willingly paid for a month's or even a week's rent.¹ If New Zealand had kept its land, the rent by this time could pay for the maintenance of the Government, after taking into account the money obtained for it, with interest added. If the land were the property of the nation its railroads would have been paid over and over again by the increased income from the land in the neighbourhood, and there would be ten times as many railroads as there are. I have already illustrated this in the case of the Manawatu railroad, the cost of which would now be paid by a mere four years' rental income of the land through which it passes.

The State as land-owner could run its railroads on quite a different principle from the one now in force. It might adopt the

¹ This sounds like exaggeration, but only to those who never paid any attention to the subject. As an illustration take one case of many from a West Australian single tax paper, *Taxation*, of August 1, 1900 : "*An Object Lesson*.—Five years or so ago the Government sold a block of land in Kalgoorlie for the sum of £40. They had this land in trust for the present and future generations, and, like the man of old, they sold the people's heritage for a mess of pottage. The other week this same piece of land was leased for a term of ten years at a weekly rental of £40, and in addition to paying as much every week as the Government received altogether, the leaseholder has to put improvements on to the extent of £6,000, which at the end of his term he leaves to the landlord. As a proof that the leaseholder is not paying more for this natural opportunity than it is worth, the gentleman who supplied us with the information said he offered the same rent, and was prepared to-morrow to give the man who is paying £40 per week the sum of £1,000 on his bargain. Nine men out of every ten will tell you that this piece of land ought not to have been sold. What has made this particular piece of land so valuable ? The people of Kalgoorlie in particular, and the people of West Australia in general. Who should receive this increased value in the shape of higher rents ?"

plan on which the owners of American sky-scrapers run their lifts—whose free use is given to the public, the increased rent of the offices more than paying for the expense. In the same way the higher rent of the public lands resulting from giving the use of our railways to the public free of charge or at nominal fares, freights at cost, would amply pay the running expenses. The same holds good for all other public improvements.

It was a disastrous policy of New Zealand to leave this increment in the possession of private individuals, instead of reserving it for the community. I find the following report in an article of Professor Ruski, of Odessa, Russia :

“The Russian Government shows by its actions how decided it is to prevent the land from becoming an object of speculation. After the construction of the great Siberian railway, it has been often tried to obtain land near the new stations. The Government has refused all offers. However, anyone who enters into the engagement to construct a house and to cultivate the land, or to carry on an industry, can have as much land as he requires, at a moderate rent, for ninety-nine years.”

Despotic Russia is doing what democratic New Zealand refused to do when Sir Julius Vogel proposed it as the basis of his railway policy. Who has profited by his defeat in the Legislature? The farmers? Certainly not, for all they want is a low rent, which compensates them for the risks of the pioneer. If this low rent had been secured to them for their, and perhaps for their children's, lifetime, it would have compensated them well for their pioneer work. No, the farmers did not need the unconditional freehold to pay them for their work, but the speculators wanted such rights, and the speculators made fortunes by their victory, for it was they who had defeated Sir Julius Vogel. Many of them, or their children, sit in London and live in luxury on the hard-earned rent paid by New Zealand farmers, and it is immaterial whether this rent is paid on a leasehold or in the shape of interest on purchase money. If this income had gone into the pockets of the community, it would have relieved the farmers of other charges loaded upon them to pay the interest on our railway debt.

This debt would be paid by this time out of the increased

value of the land which was made accessible by the roads, instead of being a perpetual burden on the people, who have to pay heavy interest to bond-holders, whereas speculators have pocketed the increment created by the railroads.

Investment of Capital in Land welcomed

Such things could not be if the people at large, and even its most intelligent men, did not wade knee-deep in the mire of ignorance in regard to this subject. How often the leaders of our best editors give expression to joy at being able to signal evidences of outside capital coming in to invest in this colony's lands, and that land values are booming! I wonder whether the poor, down-trodden hind of the Middle Ages rejoiced at the increase of castles, and at the prospect of a new donjon arising on the rocks above his humble roof—a stronghold from which the oppressor's armed minions would soon come forth to demand a heavy tribute in labour and kind; or whether the merchant of those days was happy in the prospect of a new toll-gate arising to bar his road and exact blackmail? What else is it when capital comes here to buy land as a speculation, and makes money by a rise of values? The money is not given us; it is merely invested in a net with which to catch more, much more than was paid out. The man who pays this money does so merely to exact more from somebody anxious to work the land at some future day. I heard of a Scotch capitalist who, a few years ago, came here for the purpose of investing money in New Zealand land, and who had the chance of being the only bidder at an auction sale where 50,000 acres of land, north of Auckland, were sold. He obtained them at the first bid, at 5 shillings an acre. The man will probably hold the land until he can get at least a pound an acre, perhaps without spending a penny for improvements, unless he allows some of the rent he obtains meanwhile to go towards improving the land to a certain extent. And when he finally gets his pound an acre, when the value of his 50,000 acres has risen from £12,500 to £50,000, our press will rejoice at the country's prosperity exhibited by the increase of its land values. Certainly higher land values are an indication of greater wealth, in the same way in which rank weeds indicate a

good soil, but just as we have to extirpate the weeds before we can use the good soil which brought them forth, so the destruction of land values will open the land to the wealth-strewing cornucopia of Ceres.

What good can such an investment do to the colony? The man did not come to stimulate New Zealand production, but to thwart it. If he had not made a bid, nothing would probably have remained to the former speculator—who had to sell for some reason or other—but to let *bonâ-fide* settlers have the land at a price which permitted them to develop it at once. Investments of this kind remind us of certain others made in rifles and pistols by amiable gentlemen who earned a living with such tools on the king's highway. Mere instruments of extortion have been bought in either case, and our editors applaud such banditti operations. Only investments in land which signify payments for improvements are investments of value to the country, and these are kept back by the other spurious kind.

The Freehold handicaps the Land-user

The more a farmer is forced to spend for the acquisition of the land, the less is left to him for its improvement. De Lavergne, the enemy of peasant proprietorship, speaks of

"That turning aside of capital from the cultivation of the land to its purchase, which is one of the chief vices of our French rural economy."

Unprovided with sufficient capital for improving and cultivating the land, the poor farmer has to take up a mortgage, and when once this parasite has taken possession of him his destruction is only a question of time.¹

Lacontex says: "Getting rid of one order of landlords and their rents, they have subjected themselves to another, though invisible order, the mortgagees, and to their heavier and more rigid rents."

¹ I know a poor man now earning a hard bread by canvassing who came to this country with £4,000, a capital with which he might have made a fortune on leased land; but he bought a farm for the money and had to borrow capital to work it by giving two mortgages on his land, amounting to £2,600. At the next crisis a mortgage was foreclosed; all he possessed just paid his debts, and he was turned loose upon the world, a ruined man.

The same holds good also for land used for purposes of residence. The money now paid out to buy the land then will build the houses. House rents are cheaper in England than on the continent, other conditions being similar, because the landlord is satisfied with the interest on the present value of the land which remains in his possession, while the interest on the continental purchase is paid on a price including the value of the future increment. When Ricardo says with perfect justice: "It follows then that

**The Interest of the Landlord is always opposed
to the Interest of every other Class in the
Community,"**

we must not narrow down the term to the man who holds the title, when the real landlord may be the capitalist who holds a mortgage on the other's land, and who uses him merely as the sponge with which he sucks the life-blood of the land-user. And I repeat: you cannot get at the mortgagee unless you cut at the root—"private land-ownership." Taxing him is absolutely useless, for he will simply add the amount of the tax to the rate of interest he claims, as has been proved in New Zealand and Switzerland. The case of the people is most hopeful where, as in England, landlord and farmer are usually two different persons, and most hopeless where the cultivator is nominally the owner of the land he works. When a shoemaker is in distress, we are not in the habit of bewailing the fate of the poor land-owners because accidentally some shoemakers own their shops and the land these are on. On the contrary, we are rather inclined to look at the exactions of land-owners as one of the causes from which the trade is suffering; but we are only too apt to pity the landlords in times of agricultural depression. In reality, the interest of the farmer, as such, is entirely separated from that of the land-owner, and the sooner the two are divorced the better it will be for the working partner. Farmers ought to be the most energetic land reformers, for the land is their principal tool, therefore land usury affects them most deeply. It is better for them to lease land than to buy it, for it leaves them more capital for their business, and it is certainly to their advantage to have the rent which they pay anyhow, go into the pockets

of the community they are a part of rather than into those of a monopolist.

Laying the Blame at the wrong Door

When a school-boy, I read in our primer of a way snakes have of biting the stick which strikes them, not the man who wields the stick. We need not laugh at the simplicity of the snakes, for we generally act just like them where the land-owner is concerned. Take, for instance, reports like the following :

"It is common in parts of London to find a notice, 'Part of a room to let.' The question appears to be fast approaching a climax. It is no longer within the means of working men, earning ordinary labourer's wages, to provide decent house accommodation. Only the other day no fewer than seventeen people were found inhabiting a single room in Camberwell. Among some families in Spitalfields the beds are rented on the eight hour principle, having three different sets of sleepers every twenty-four hours. Such a statement would be incredible were it not well authenticated. The officials of the local authorities do not know what to do. The report affirms that fully a fifth of the total population of London are over-crowded, in spite of the law. That is, 900,000 people are in illegal occupation of rooms. There are nearly 400,000 people living in London in what Mr. Sydney Webb calls 'the soul-destroying conditions of the one-roomed home.' There are 3,000 living eight and more in a room, and 9,000 living seven and more in a room, and there are over 26,000 living six and more in a room. In describing some of the cellar dwellings in London, the report tells of a number of children who took turns at keeping awake to keep rats off the others. It is horrible. Yet this is a civilised country, and this is the end of the marvellous nineteenth century.

"In this crushing and crowding for room to live the property sweater scores at every point."

This is the conclusion usually reached. The owners of these tenement or slum houses are the usurers at whose door the whole blame lies. Not often do we find the real source of the evil indicated as in this case, where the *People's Journal*, Dundee,

continuing its comment on the Bethnal Green Vestry's report, says :

"The cry of 'No room to live' is another form of the everlasting land question. The slum landlord gets all the benefit."

Attack the System, not those who profit by it

I do not want this looked at in the light of an attack on the land-owning speculators. I am attacking the right of private land-ownership, not the land-owners, whom I think in their full right to invest their money as they please, and who are fully justified in their business transactions, even if they are sincere land reformers. So also with opponents of our gold currency if they elect to buy gold shares. One might as well reproach the socialist Bebel with having been an employer of labour. On the contrary, we should be justified in doubting the good faith of the land reformer, who professes that under existing laws land offers the most remunerative and the only safe investment, and who, notwithstanding, places his money in industrial enterprises which he asserts to be superlatively hazardous.

When I myself was accused on these grounds I used to tell the story of the dog trained to fetch the meat from the butcher. Once upon a time, half-a-dozen other dogs attacked him, and forced him to put the basket down. He defended the meat against his enemies as well as he could ; but when he saw that he could not prevail, he took his share. My forbearing from buying land would not make it common property, would not give it back to its rightful owners, the people ; but would simply cause another to buy it in my stead. Nor would the leaving my capital to my banker without interest prevent him from taking interest for it from those who borrow it from him. I should simply increase the power of others to defend the present system, while weakening my means of assailing it.

In an article on Tom L. Johnston, one of the foremost single-taxers in the United States, Louis F. Post, the able editor of the *Public*, takes the same stand :

"If in his business dealings he may at any time have been accused of resorting to the arts of the monopolist, that is because

he makes a clear distinction between things as they are and as they ought to be. Whoever would be rich in these days must resort to the arts of the monopolist. No successful business man is free of that taint. The real issue is not whether a man is a monopolist or tries to be one, but whether he tries to perpetuate the conditions and institutions that make the arts of the monopolists prime conditions of business success. On this issue Johnston's skirts are clear. He realises that with things as they are a veritable car of juggernaut is passing over the writhing masses of mankind, crushing them under its ponderous bulk. He knows that this ought not to be, and he appeals to the people to stop it. He offers to help them stop it. He endeavours to stop it. But he refuses to be crushed. 'So long as you allow this infamy,' he exclaims, 'I shall try to get a place on the car instead of under the wheels; but I will help you to abolish the whole thing.'

"He has got a place on the car, a comfortable one as such places go; but from this point of vantage he is doing all that one man can to hinder its murderous progress. In his business life, that is, Johnston takes advantage of conditions as they are to make money. But he does not fool his own conscience, nor insult the intelligence of his generation, by pretending that the industrial conditions which foster fortunes so made are beneficent. He knows the conditions are foul, he knows why they are foul, he denounces them as foul, and in all his civic relations, whether as office-holder, politician, agitator, or simple voter, he does what he can to abolish them.

"His attitude in this respect may be best illustrated by an answer he once gave in Congress: 'As far as I am personally concerned I am a thorough-going monopolist, and would be willing, outside of this hall, to take advantage of any of the bad laws that you put upon the statute-books; but I will not defend them here.'

"That declaration describes Johnston exactly. In business he is a monopolist; but unlike the other great monopolists, he does not carry his business interests into his political life."

It is here, I think, that social democrats are committing their most grievous mistakes. It is true that the employer is the sponge which sucks up the profit, the greater value (Mehrwerth,

as Marx calls it) of labour's product, but only to yield it to the rent and interest lords, as well as to the middle-men, who together press it out of him as quick as he gets it, barely leaving him on the average the hard earnings of his own work, and, what is worse, taking the power from him of increasing production to its full potentiality. Stirring up the workers against their employers unnecessarily creates bad feeling on both sides, and thus prevents both parties from getting at the full truth, and then combining their forces in the attack upon the real enemy.

Which is the best policy? To attack the man whose footstep has involuntarily started an avalanche, or to try to protect the valley from such curse? But even those who sent the wanderer on his journey are as guiltless as the poor fellow who himself was buried by the avalanche. Through circumstances over which they had no control, through ignorance, habit, prejudice, descent, education, the land and money lords have become the innocent wheels in a machine which crushes millions beneath its rollers. As a general thing, they imagine that they accomplish a social duty in interlocking their cogs, well greased, into those of the other wheels of the machine. Even the voluntary retirement of the single wheel cannot stop the working of the mechanism, because at once other wheels would automatically take its place.

Let us fight with all our power against the evil, and, if we are victorious, the evil-doer will disappear. I do not think that anybody ever expressed this sentiment more forcibly than my old friend and co-worker, A. J. Ogilvy, when he wrote the following article in the columns of *Land and Labour* (June, 1900):

"GREED.—This is a protest against the habit, too common amongst us, of charging this and that exploitation of the workers to greed: the greed of the landed, the monied, or other privileged or powerful class.

"Greedy people, of course, there are in these as in all classes, but in no one class more than another; and these wholesale charges recoil upon ourselves, doing perhaps more harm than all the arguments and influence of our opponents put together.

"For even with the greedy ones it is not greed that makes

them do the things we denounce, but mistaken ideas as to their rights, backed up by the teachings of a false political economy, and confirmed by immemorial custom behind and universal practice all round.

"It is not greed, but fair honest business, to try to get the full market value (*i.e.*, the best price going) for whatever we have to sell, lend or let, and to give no more than the market value for whatever we have to buy, borrow, or hire, so long as we believe honestly in our right to dispose of or to acquire it. No one blames the farmer for taking advantage of bad harvests to ask the abnormally high price going for his grain, and this notwithstanding that the high price means a pinch to the poor; for scarcity means that there is not enough to go round, and so someone must go short in any case, whatever the price, and the high price actually works for good by compelling care and economy in the use, and so making the scant supply spread wider or last longer; and high prices at one time are but fair compensation for low prices at another, and for risk at all times.

"Also if he thinks the price likely to rise still higher, he is quite justified in holding on for the expected rise so long as he does not deliberately try to force the price up by 'cornering'; by producing an artificial scarcity on top of the genuine one. The same thing holds true with the merchant in regard to his goods, and the worker in regard to his labour. It is only careless indifference or weakness of character to let your commodity go for less than its market value. If you want to be benevolent or public-spirited, you can be so more effectively by insisting on your full price and righteously applying the proceeds than by letting your goods or services go cheap, which rarely benefits the right person.

"Now what we have to realise is that the landlord, in trying to get the most rent, the money-lender the highest interest, and the employer the most work done at the smallest cost, is acting on the same ordinary accepted business principles as the farmer in regard to his grain, the merchant his goods, and the labourer his service; and not only does he honestly believe that he has the same right to do this, but so also do the public generally, including even the very people who suffer: the land-user, the money-borrower, and the employee, who conversely and very properly tries to get the highest wages he can. Each

believes that a thing is worth what it will fetch, and that this 'worth'—this market value—can only be ascertained by the 'higgling' of the markets; that the owner of the thing has the full right to get it without exposing himself to accusation of greed. If the whole idea is a mistake, it is a universal (or almost universal) mistake, and no class in particular is to be blamed for it.

"These hasty and sweeping accusations of greed not only exasperate the accused, and set them determinedly against us, when many of them are good men open to conviction if only fairly approached; but they arouse indignation and opposition in the tens of thousands of honest men who do not belong to the classes attacked, but are their friends and neighbours, and who, knowing that this attack is unjust, set us down as violent fanatics, whose arguments are not worth serious attention.

"I meant to have illustrated my argument by applying it to particular cases, such as the withholding of building sites, the extortionate demands for allotment rents, and even that crime of crimes, the highland clearances (if that can be called a crime which is atrocious only in its nature, and not in any criminal intent of the perpetrators), and to show in each case how special and specious arguments, even of disinterested economists, helped to delude the doers of the wrong acts, in the belief not only that they were strictly within their rights, but often (especially in regard to the worst of all, the clearances) that they were really acting for the public good; but space forbids.

"But there are two other causes at work, besides mistaken ideas as to rights, which if they do not create, at any rate intensify the evils we deplore :

"1. That in regard to sweating; the sweater in most cases is himself sweated, and driven to sweat others in his struggles to keep his own head above water. If he is not directly sweated by extortionate rent, crushing interest or insufficient salary, he is sweated by that terrible cut-throat trade competition that cuts profits down to the quick, and makes ordinary business something like the struggles of drowning men, each pulling the other down in his attempt to keep himself up.

"2. The other cause, less commonly noticed, is the delegation of responsibility and consequent loss of the sense of it, due to the growth of Joint Stock Companies. Enterprises are now carried

on on so large a scale that they are fast passing out of the hands of the old 'Captain of Industry,' the single specially gifted organiser and owner of enterprise, and are falling into the hands of a multitude of obscure shareholders who leave the management of the affairs to directors, who being in turn mere paid agents, consider they have no right to be magnanimous with the property of their employers, or to consider nice questions of ethics, but are bound to carry out strict business principles to the bitter end; while their employers, the shareholders, consider that the whole responsibility of the business is on the shoulders of the directors, and look merely for their dividends, never asking inconvenient questions as to how the dividends are got. They are mere sleeping partners, absolutely asleep so far as the management is concerned, only waking up now and again when dividends fall to make spasmodic inquiry as to the cause of the fall; never as to the strict equity of the source. You may hear complaints from them that such and such an officer is inefficient, never that he is under-paid or over-worked (unless it involves a risk to their interests), or that such-and-such requisites might be procured elsewhere; never that the extra cheapness elsewhere is due to sweating.

"Which of us, indeed, even amongst the loudest declaimers against Greed, has not insured his life or his property, or invested savings at interest? And yet how many of us have ever paused to reflect how it comes that our insurance is assured, our premium is as low as it is, and how the interest on our savings accrues? If we did, it might begin to dawn upon us that our insurance and our interest are due to the Insurance Co. and the Savings Bank, both acting consistently on the strict business principles of getting everything in the cheapest and disposing of it in the dearest market; taking every advantage the market offers of scarcity of goods, scarcity of money, scarcity of employment; conduct which, quite natural and legitimate in itself, and actually for the public good amongst a really free people, does under existing conditions of monopoly of natural resources exhibit itself as sweating.

"So long as natural resources are made an article of commerce, to be bought up by the rich, granted to or withheld from us at their pleasure, and used as an 'investment' to exact tribute from the workers, so long will the naturally boundless

field of employment be artificially restricted, and more workers be seeking work than work offering for workers; and so long will the evils we deplore follow inevitably, competition for employment forcing down wages and lengthening hours. It is the institution which is at fault, not the people who happen to represent it for the moment. Let us cease, then, hurling baseless and exasperating accusations against these, and attack the institution only."

Other Aspects of the Land Problem

I should say much more here upon this great subject of land reform. I have not even touched upon any but the direct effects of private land-ownership produced by the mere withholding of our mother earth from fellow-beings who famish without it. I have not discussed the most important relation of rent to interest, as one of its progenitors, nor have I done more than merely indicate the part Land's indestructibility plays in the building and maintaining of wealth concentrations, and their effect on employment. These aspects of the great problem can only be approached after other social factors have been duly considered. Our next step will be to investigate the nature and the influence of one of these factors, equivalent—by many regarded as superior—in importance to Land: *Money*.

CHAPTER III

MONEY

"Gold ! gold ! gold ! gold !
Bright and yellow, hard and cold ;
Molten, graven, hammered and rolled ;
Heavy to get and light to hold ;
Hoarded, bartered, bought and sold,
Stolen, borrowed, squandered, doled ;
Spurned by the young, but hugged by the old
To the very verge of churchyard mould ;
Price of many a crime untold ;
Gold ! gold ! gold ! gold !"

—THOMAS HOOD,

I.—*DEFINITION AND CLASSIFICATION*

IF Land is the skeleton of the social body, if Labour supplies its muscles, Money may be regarded as its life-blood, without which the muscles do not move and the bones remain an inert mass.

As blood was circulating for millions of years before Harvey expounded the system of its circulation, so money, even in our days, is used by millions who have not the least conception of its real nature. Many of those who know most about it have a personal interest in concealing their knowledge. So early as 1577 we find the keen and piercing intellect of Bodin remarking thus: "For men have so well obscured the facts about money that the great part of the people do not see them at all. The moneyers do as the doctors do, who talk Latin before women, and use Greek characters, Arab words, and Latin abbreviations, fearing that if the people understood their receipts they would not have much opinion of them." (Quoted from Dunning's "Philosophy of Prices.")

I do not wish to fatigue the reader with the many conflicting definitions given of Money by economists, but shall follow the

course adopted through the whole of this book, of taking the word as nearly as possible in the meaning given to it by the custom of everyday life. In this sense I shall confine the term to anything which is legal tender for debts, *i.e.*, which has to be accepted as the final settlement of a debt by the creditor to whom it is tendered. In Great Britain sovereigns and half-sovereigns are legal tender for all debts; smaller coins are only legal tender for debts up to 40 shillings, and Bank of England notes for all debts above £5, except the debts of the Bank. British coins and Bank of England notes, therefore, are Money in Great Britain. Other means of payment or exchange, such as those bank-notes which are not legal tender, cheques, bills of exchange, promissory notes, etc., are not money, but money representatives, money promises. They are included with money under the general name of currency; but whereas money is only that which has been made legal tender for debts, currency is anything which passes as a means of exchange and payment. Money is always currency; currency is not always money. There are three kinds of money.

1. Any kind of merchandise may be made money by law or general agreement. We might call this money merchandise money, or commodity money. A number of different kinds of merchandise have been chosen as the money commodity at different times and in different countries. Cattle has been mostly used, of which "pecuniary" (from "pecus" = cattle) still reminds us. Different metals paid out by weight come next in order. Certain shells, salt, fish hooks, etc., have been or still are money in certain countries. Whether a special form is given to the money commodity, whether it is marked by some kind of stamp, or whether the special form and the stamp exist concurrently, makes no difference so long as the value of the money, as such, does not differ from that of the raw material it contains, the newly-minted English sovereigns and American gold coins, for instance. It is self-evident that the parity between the value of the coin as money and the coin as bullion exists only so long as no abrasion has taken place, and can only be maintained while free coinage exists, for without free coinage, which enables any possessor of bullion to change it into coins of equal value, coinage becomes a monopoly, and coins obtain a monopoly value liable to differ from their bullion value. With-

out free coinage gold coins enter the confines of money class 2.

2. The stamp is applied to a commodity which would fetch an appreciable price even if the stamp had not been added ; but the stamp increases this value, more or less. Silver, copper, and nickel coins at present belong to this class, and also gold coins which, through seignorage or wear and tear (unless the State gives new ones for them without cost), have a higher value as money than they possess as bullion. Class 2 offers a transition to class 3.

3. The commodity value has entirely disappeared, the value imparted by the stamp alone remains. We have reached *Token Money* or *Money of account*. In our time it is exclusively known in the form of paper money—not to be confounded with bank-notes payable or supposed to be payable in coin. The best known prototype of this class is represented by the French Assignats of the eighteenth century ; but money of this kind was used in remote antiquity, in China, Rome, Lacedæmon, and Carthage in the shape of small pieces of leather supplied with certain signs.

The wooden tallies issued by the English Treasury up to the reign of William III. belong to the same class. They were accepted in payment of taxes by the Treasury, but not paid in gold or silver.

Confusion of Paper Money and Paper Currency

What has more than any other cause contributed to complicate the money problem is the difficulty of drawing a sharp line between this third class of money and one special kind of currency, a certain kind of money representatives called bank or treasury notes. Where these are merely money promises, they are not money ; but where they have been made legal tender they are legitimate money, even though, as in the case of the Bank of England notes, the bank has to pay gold for them at any time. With most of the legal tender bank or treasury notes this obligation does not exist ; for though at some time or other coin was obtainable for them, the practice has become obsolete, and to all ends and purposes they are just as much mere tokens or paper money as the French Assignats were,

To this class belong the notes of Argentina,¹ Brazil, Greece. Portugal, Spain, Italy, Turkey, etc. For Austria-Hungary and Russia there was an intention of resuming specie payments after a very long period of non-convertibility; but I do not know whether the payments have been permanently resumed in the case of Austria, except in money of the second class, of silver coins; or whether, regarding Russia, gold payments have been maintained since they were begun a few years ago. At that time, in spite of the text of the notes promising coin, the people had so entirely ceased to associate paper roubles with coin that the peasants in many cases refused the new coins, because in their eyes—exclusively familiar with the paper—they were not roubles.²

Elastic Boundary Line between Class 1 and Class 2

Though the hybrids just enumerated are responsible for most of the confusion reigning in the field of currency reform, the elasticity of the boundary line between class 1 and class 2 is equally productive of confusion. Thus the main bone of contention between monometallists and bimetallists is the

¹ The Argentine Republic offers an interesting example of the hybrid nature of certain kinds of paper money. In 1869 the province of Buenos Ayres issued real paper money, on which was printed: "La Provincia de Buenos Ayres reconoce este billete por 1 peso moneda corriente." (The province of Buenos Ayres recognises this note for 1 peso current money.) The present paper money of the Argentine Republic has the inscription: "La nacion pagara al portador a la vista por medio del Banco de la nacion Argentina 1 peso." (The nation will pay to bearer at sight through the bank of the Argentine nation 1 peso.) Which means that for the paper another paper of the same kind is handed over on demand, as this paper is legal tender money, and is issued even for small change down to 5 centavos. As a peso in paper is worth 1s. 10d., the 5 centavos paper is worth about a penny. No other money, no gold or silver coins, are paid out by the State, or by the bank. These notes are not only a hybrid between paper money and money representatives, but also one between treasury and bank-notes.

² This recalls a remark made by Thompson, in his "Political Economy" of the Scotch bank-notes down to 1845: "The people will take guineas instead if they must, but they pass them off as soon as possible, as a pretentious, unthrifty, eminently un-Scottish kind of money, much inferior to a native bank-note coined in any corner of Scotland."

question whether or not the value of gold or silver as merchandise can be kept at par with their money value where both are made legal tender for all debts, after a permanent relation between the amounts of metal respectively used in the gold and silver coins has been established; or, in other words, whether both together can be kept within our first money class. It is evident that, whenever the merchandise value falls below the money value, the coin has, for the time, passed from class 1 into class 2. A possible temporary excess of the merchandise value over the money value can be left out of account, because dealers in the precious metals will at once take care to eliminate such coins from the money domain altogether by selling them as bullion for melting purposes. Coins selling at a premium in legal tender are practically no longer money, but a merchandise.

Money Evolutions

Without wishing to prejudge at this stage which class of money proves the best in practice, we can at least conclude that each presents a degree of evolution from the preceding class, an evolution corresponding to a more advanced state of civilisation, just as class 1 itself was a decided progress from primitive barter. It is barter still, but improved barter; or, as it has also been called, a double barter. The tailor who wanted to exchange a coat for a table had not only to find a person who wanted a coat, but one who at the same time had a table to dispose of. If by general agreement, or by law, certain commodities are accepted in exchange by everybody, whether specifically required or not, because, through this general acceptance, other things which are required can be procured for this special commodity, the work of our tailor is much simplified. He has only to find someone who wants a coat and is willing to give the generally accepted commodity for it. He is sure then to obtain a table if one is in the market, even if the owner of the table does not want a coat; because the latter will certainly accept the special commodity, for which he in his turn can obtain anything he may need. The next step will be that the community makes its taxes and fines payable in this special generally accepted commodity; and finally, not only prices of all goods and services are computed in the

quantities of the special commodity for which they are obtainable,¹ but debts are also figured in the same way, and any person can liberate himself of a debt by simply tendering the promised quantity of our commodity, which thus has become legal tender, and consequently money. When it is supplied in exchange for anything else, or when it is handed over for a debt, we call the transaction a payment; bartering becomes buying and selling.

Preference given to certain Metals

It is generally considered that the adoption of certain metals as the money commodity, because of their comparative indestructibility, their divisibility and their general use in the arts or as ornaments, marked a further progress. We shall yet have to consider later on whether another of their qualities—their scarcity—usually given as their principal claim to the money honour, was not more in the nature of a disqualification than of a benefit through the dangers it involved.

Another good quality of metals, usually stated, is their impressionability. It offers the great advantage of delegating the trouble of weighing and assaying each piece of metal to special parties, instead of forcing this work on every receiver of money. It is a perfection, however, which in its consequences supplied the most powerful weapon for the gradual but certain dethronement of the precious metals from their money kingship. Gradually the stamp itself obtained a value more and more independent of that of the raw material to which the stamp was applied, until, after class 2 was passed, the value of the raw material entirely disappeared, and class 3, token money, was reached—a class perhaps even more ancient than class 1 and class 2, as the money of some high civilisations of the past belonged to it, and capable of a perfection to which the other classes cannot aspire.

¹ Jevons draws special attention to this function as a measure of value by pointing out that "between one hundred articles there must exist no less than 4,950 possible ratios of exchange . . . all such trouble is avoided if any one commodity be chosen, and its ratio of exchange with each other commodity be quoted."

Token Money the Means of Exchange of a higher Civilisation

The money of the first class is the remnant of a stage of development not far distant from the savage condition. Credit, the child of confidence and trust, is not born. The money accepted has as much value as the commodity or service which is supplied for it, if sold as an ordinary merchandise. The money of the third class, however, has no other value but that imparted by the stamp, which causes those with whom we are dealing to supply goods or services of a certain market value for this money. It has no mercantile value by itself, independent of its stamp, for the material on which the stamp has been affixed is practically worthless in this small quantity. Parting with valuable goods for a mere token of no independent market value presupposes a certain amount of trust in others, the trust that they will pay the same honour to the stamp as the party who accepted it.

Robert Ellis Thompson says, in his "Political Economy," p. 152: "If barter may be compared to the rude mode of transportation on human backs, and coin to transportation in carriages by horses, paper money is the steam carriage, whose use calls for larger precautions against danger, but whose superior utility far outweighs that consideration"; and further on, pp. 156, 157: "The third and the most perfect form of money is *money of account*. It possesses in a still higher degree all the advantages that make paper money better than coin." (Under paper money Thompson understands bank-notes: money promises.) "As much as paper money is less material than coin, by so much is money of account less material than paper money." After comparing it with a flying machine as related to a steam carriage, he goes on: "It is the money of civilisation; its use involves a degree of intelligent insight into the true nature of wealth and of exchanges; and a strong confidence in the genial honesty and trustworthiness of mankind, that are impossible to the savage or half-civilised man. . . . It originated in the communities of Italy; from there it came to Amsterdam, Hamburg and Stockholm."

Thompson here leaves out of sight the token money of ancient times, of China, Carthage, Rome, Sparta, etc. He

relates that the republics of Venice and Genoa authorised their creditors to establish banks on the basis of the certificates of the city's debt. After stating that the bank of Venice dated from 1171, he proceeds :

"Then to secure a uniform currency, the Government decreed that all wholesale transactions should be paid in the form of a transfer of bank stock—unless otherwise stipulated—so that whoever had a boxful of coins gathered from the four quarters of the earth through the manifold channels of Venetian trade took them to the bank to get credit upon its books according to their weight and fineness. The standard by which their value was estimated was called 'money of account,' to distinguish it from the various moneys that were translated into it. *The Government treated these masses of coin as payment for the privilege of a credit in the bank's book, and all idea of their repayment was lost sight of.*

"Yet, in 400 years, or until the conquest of the city by Napoleon I., the money of account circulated freely, and was at a premium in coin ; trade proceeded with a rapidity previously unknown ; no Venetian ever raised his voice in complaint of an institution which was the pride of the city and the envy of Europe. *When the French destroyed it they found no funds to reward them.*"

The "Encyclopedia Britannica" gives the following under "Banking" : "Historians inform us that the republic, being hard pressed for money, was obliged, upon three different occasions, in 1156, 1480, and 1510 to levy forced contributions upon the citizens, giving them in return perpetual annuities at certain rates per cent. The annual dues under the forced loan of 1156 were, however, finally extinguished in the sixteenth century, and the offices for the payment of the annual dues under the other two loans having been consolidated, eventually became the Bank of Venice.

This might be effected as follows: The interest on the loan to the Government being paid punctually, every claim registered in the books of the office would be considered as a productive capital ; and these claims, or the right of receiving the annuity accruing thereon, must soon have been transferred by demise or

cession from one person to another. This practice would naturally suggest to holders of stock the simple and easy method of discharging their mutual debts by transfers on the office books, and as soon as they became sensible of the advantages to be derived from this method of accounting, bank money was invented. It will, however, be seen that the establishment thus described was at first no more than the transfer office of a national debt, transfers of which were accepted at par in discharge of private debts, and it is indeed said that the funded debt transferred sometimes commanded 'agio' or premium, above the current money of the republic."

In "*Munera Pulveris*," p. 21, John Ruskin says: "The use of substances of intrinsic value as the material of a currency is a barbarism, a remnant of the conditions of barter, which alone renders commerce possible among savages."

In thus considering the third class the highest evolution of money, I do not wish to prejudge the question whether it is also to be considered the best money under any circumstances, for this important question will be treated later on. Our first task was to define and classify.

II.—*THE VALUE OF MONEY*

There can be only one way of finding the value of money: it is to obtain the price of goods of all kinds. In other words,

The Value of Money is its purchasing Power

There is no other gauge; just as money measures the value of merchandise, so merchandise measures the value of money. This holds good for money of all three classes, with the only difference that, as the value of the money of the first class corresponds to that of the merchandise it is composed of, it is immaterial whether we speak of the value or price of this merchandise or that of the money made out of it.

In Gold Currency Countries the Value of Money is the Value of Gold

Gold is the money material adopted by the principal commercial nations which are using money of the first class; for

even in the three bimetallistic countries : France, Switzerland, and Belgium (I leave Italy and Greece out of account, being for the time practically paper currency countries), the silver money no more belongs to the first class, since free coinage has been given up—of which more when we discuss bimetallism. Consequently, we may as well speak of the value of gold in these countries when we speak of the value of their money. It is immaterial whether, for instance, in England we speak of the value of the pound sterling, or of the value of the 123·374 grains troy of standard gold composing it, as anyone who carries this quantity of gold to the British mint can obtain a sovereign for it, a right to which we give the name of *Free coinage*.

Cheap and dear Money

This definition of the value of money is certainly simple enough, and seemingly beyond any possible chance of dispute ; yet even here, as everywhere in monetary science, confusion has crept in, and we cannot proceed without devoting some space to two causes of error.

One is due to the jargon of the Stock Exchange. When its devotees speak of cheap or dear money, they do not mean the only thing which these words really signify : the increased or decreased purchasing power of money or gold, its appreciation or depreciation, but the rate of interest at which money can be borrowed. We often find money very cheap—in Stock Exchange parlance—in times of commercial depression, because capital is shy, and prefers the $2\frac{1}{2}\%$ to 3% it can obtain on best securities to any percentage offered in commerce, which, in times when the discount of the Bank of England is at its lowest, often cannot obtain money at all unless a security is offered that the average business-man cannot supply. The rate of interest is low, but the risk premium is exceptionally high. This difficulty of finding money, this height of the risk premium, forces the business world to sell goods at any price ; and usually such times of exceptionally low rates of interest are accompanied by low prices. But low prices of merchandise mean a high price of money, whose purchasing power has risen, has appreciated. Thus when the bill-broker says that money is

cheap, it is dear. On the other side, when he finds it dear, it is cheap ; because when industry and commerce are flourishing, when capital finds remunerative investment in business, it does not compete so sharply for the securer investments bearing a lower rate of interest. In such times the price of consols falls, because many people sell them to take stock in industrial enterprises, and the Bank of England rate rises because the business world eagerly offers bills for discount. But when industry and commerce are in a flourishing condition, prices generally have a rising tendency, and, consequently, the purchasing power of money becomes reduced. So money is cheaper at the very time when the broker tells us that its price has risen.

But this is not the only source of error in this field. When the fall of prices during the last thirty years is discussed, you often hear that this does not imply the appreciation of gold, but that it means, through our technical progress, goods are produced at lower prices. The worthy gentlemen who reason in this way forget that their argument is on a level with that which denies that John is taller than Charles because Charles is smaller than John. It is absolutely immaterial whether less gold is given for woollen goods because woollen goods can be produced at one-half the price of thirty years ago—the same worker being able to spin and weave during the same number of working hours a much greater quantity of wool by means of our improved machines—or because gold has become scarcer and costs more to produce. All we want to know is whether or not it is true that twice as many woollen goods have to be given for the same quantity of gold. If they have, then the purchasing power of gold measured in woollen goods has doubled, and if all other goods have fallen in price at the same rate gold has correspondingly appreciated. If, on the other side, the new gold-mines opened within the same period had produced so much gold that the offer of gold in the market had increased much more rapidly than the supply of all other classes of merchandise for gold, the prices of merchandise might have risen in spite of reduced cost of production, and gold would have depreciated.

The Quantity Theory

The relation between the quantity of money offered for goods and the quantity of goods supplied for money—in other words, the law of supply and demand—determines not only the price of goods, but also, at the same time, the price or the value of money. We must be very careful, however, before we infer from this definition—usually called the quantity theory—that there is anything like a fixed relation between the quantities on both sides of the equation, such as, for instance, John Stuart Mill seems to assume, when he says (Book III., Chapter VIII., par. 2 of his “Principles of Political Economy”): “If the value of money in circulation was doubled, prices would be doubled. If it was only increased one-fourth, prices would rise one-fourth.” He qualifies his dogma, however, in Chapter XIII. of the same book, when he discusses the effect of credit on prices. He could not fail to see that elements more powerful than the mere money or goods quantity come into play which make such a raw conception of the quantity theory impossible.

Influence of Circulating Quantity

He certainly realised that it is not the quantity of the money stock we must consider, but the quantity which circulates in the market. Money may be plentiful, but it may be locked up in the safes of misers; and the poor producer who wants to sell his goods to obtain the money he needs may find a good deal of truth in the facetious German saying: “Money by itself does not confer happiness unless we possess it.” Prices may thus be very low, in spite of a large stock of money. Then we have the

Rapidity of Circulation

which plays an important part in the problem. Francis Bowen illustrates this influence well when he says: “The circulation of money and merchandise bears some relation to the momentum spoken of in physical science, which is composed of the velocity multiplied by the mass. The movements are equal, though the velocity should be increased ten-fold, provided that the mass is but one-tenth as great. So also the momentum of wealth is its value multiplied by the rapidity of its circulation.”

Influence of Barter

On the other hand, the quantity of goods offered in the market by itself has no influence on the prices of goods and money, but only the quantity offered for money. Where exchange transactions are mostly done by barter, a comparatively small quantity of money may correspond to a much larger turnover of goods than where business is done solely on a cash basis. And barter has played, and plays, a much more important part in business transactions than many people are aware of. Many of our colonial farmers' business transactions are thus performed on the basis of mutual exchange. Prices and sums are expressed in money, but no money passes. In some parts of the world even barter has not been reached yet for many goods which city people obtain only by purchase. In industrious New England, for instance, the farmer's wife, during the first half of the nineteenth century, still made her own soap, candles, sugar (maple), linen, and part of the woollen apparel of the household. The farmer brewed his own beer or pressed a sour wine from poor grapes. Rosegger, an Austrian author still living, tells us in one of his most humorous writings, from his own experience, how the peasants in his native village tanned their own leather, which the shoemaker, while he boarded in their houses, made into shoes in exchange for produce, in the same way in which the weaver made cloth from the homespun wool or yarn. Most of the furniture was home-made, from the table and chair to the mattress and bedcover made from homespun flax, and filled with hair cut from the farmer's own horses, or feathers from the geese of the barnyard.

That a great part of the business with savages is done by barter is well known.

Influence of Credit

But barter in our time is a less important substitute for money in business than credit, and especially one form of credit—money representatives. In some countries the cheque does the most work of this class. A buys some goods from B, B from C, C from D, and so on until Z buys from A. Each gives a cheque; and if all transactions have been made on the same

day, all these cheques come into the bank at about the same time, and they are booked for and against the parties. A large turnover may thus take place without a penny of money having passed, even if the parties have different banks ; for the banks among themselves have an institution, called a clearing house, where all bring their cheques payable on the other banks, and these are compensated just as the cheques of the customers who bank in the same establishment are compensated in the books of this bank. In England, the balances are paid by cheques on the Bank of England ; and thus many billions are turned over without a single coin. "In a return," says M'Leod, "laid before Parliament by an eminent City firm, it was shown that out of £2,000,000 payments and receipts by the firm, only £40,986 were paid in gold, silver, and copper, all the rest in different forms of credit, and some bankers found that in banking only .0025 per cent. were paid in coin ; all the rest in credit."

Money Debts and Money Stock

Next to cheques : bank-notes, bills of exchange, promissory notes, and I.O.U.'s are the principal forms which the money representatives usually take. It is very difficult to estimate their quantity relation to the money stock. Anyhow, I think M'Leod's estimate exaggerated when he calculates the credit resting on 110 millions of actual coin in Great Britain to amount to 10,890 millions; or about one hundred pounds of credit to each pound of coin. We cannot take as a basis of calculation the proportion of coin paid in the daily business transactions, for this would leave out of account the stock hoarded by the public and the banks. We must add the debts of all kinds which are payable in coin, and take their proportion to the stock of coin and bullion. In this way I came to the conclusion that the relation certainly does not exceed 40 to 1 ; and if we deduct those debts which are compensated by other debts due to the debtor, the proportion will probably not exceed 30 to 1, and may perhaps come down to 20 to 1. According to the Director of the United States Mint, the assumed debts of the world payable in gold in the year 1893 were £12,000,000,000, while the stock of the world's gold amounted to £716,521,000,

which is 17 to 1 ; but I think this a good deal below the real relation. Even this lowest figure is, however, quite ominous enough, for it simply means that if all creditors, after a compensation of mutual debts, press for the payment of the balance in money, only one pound for seventeen can be forthcoming. If we assume that even our large financial concerns owe about six times more than their money stock amounts to, we are on the safe side. J. C. Leaver states in *Money*, p. 20, that the chief London banks, exclusive of the Bank of England, owe to the public £227,000,000, and that the cash in hand and at the Bank of England amounts to £27,000,000.

Mr. George Clare, in his "Money Market Primer," which has been included in the list of books recommended by the Council of the Institute of Bankers, says: "The sum due on 31st December, 1890, by the banks of the United Kingdom, under the head of Deposit and Current Accounts, was estimated by the *Economist* on the basis of the balance-sheets published by the joint stock establishments at, in round numbers, 650 million pounds, while our whole stock of legal tender does not exceed 126 million pounds . . . and of these 126 millions it is quite likely that half to two-thirds are in actual circulation among the people, leaving a balance of, say, 50 or 60 millions available for banking purposes." (Pp. 48, 49.)

A similar state of affairs obtains in the colonies. Our New Zealand banks, including the saving banks, owed in 1900, for deposits, about £21,000,000, to which about £1,000,000 due for bank-notes has to be added, for which about £2,700,000 of gold and silver coins and bullion was on hand: only about one pound to eight due. If we deduct £8,000,000 of fixed deposits for which a certain time is given within which the banks are supposed to be able to raise the money—a very vain hope when we consider the similar position of the English money market and of other countries, and the fact that financial crises usually extend all over the world—we have still £14,000,000 left which the creditors may claim from one day to another, and of which only four shillings in the pound can be paid.

State of Credit affects Prices more than Money Stock

Under such conditions, the actual money stock can only have an indirect effect on prices, and consequently on the value of money. Th. Tooke and W. Newmarch, in "A History of Prices and of the State of the Circulation from 1793-1837," give some interesting facts, showing how the state of credit is of much more importance than the money stock, and how periods of low prices at different occasions coincided with a larger, and of higher prices with a smaller money stock. Most instructive is

The Course of the Crisis of 1847

The prices at the Stock Exchange fell enormously ; from one day to another as much as $1\frac{1}{4}\%$ discount was paid, which is at the rate of 450% per year. General ruin was in view, when at last the Government promised a suspension of Peel's Act. At once the panic disappeared, and large treasures of sovereigns and bank-notes came out of their hiding-places. That there was no exceptional demand for gold was proved by the fact that during the whole time of the crisis there was no diminution in the issue of bank-notes ; and what is more, as soon as the permission was given to the bank to issue more notes, not quite £400,000 in all were demanded. This was specially mentioned in the defence which the Chancellor of the Exchequer made in the House of Commons on the 30th of November. He said that the money in the hands of the public was absolutely sufficient, but that its circulation was lamed by a panic fear, as all reports received by him proved. The Government was asked for assistance from all sides, but everyone said : " We don't want any bank-notes, we want confidence. Tell us that you will assist us, and we have enough. When we know that we can obtain bank-notes we do not need to take them. It is indifferent how high the interest rate demanded, confidence will at once return."

Here we see clearly that it was assuredly not the gold coins which the people wanted, and not even the bank-notes, but only the certainty that they could obtain them in case they wanted them. Bank-notes, they knew, could not be converted

into gold in case the attempt had been made to any large extent ; for even in ordinary times, without any repeal of Peel's Act, the issue of 15½ million pounds of notes is permitted to the Bank of England (at that time not less than 14 millions) without any gold cover ; and the suspension of the Act might have largely increased the amount for which no coins and no bullion were in stock. The people made no attempt to demand gold for their notes. The notes were legal tender, they could be used to pay off liabilities, and that was all they wanted.

We have thus arrived at the conclusion that in the last resort the condition of credit determines the value of money, a credit the foundation of which is the certainty people possess, or believe to possess, that monetary engagements can be regularly kept, that the money promised will be forthcoming when due and demanded. The actual money stock of the country—as a remarkable historical example has shown us, and as the facts of every-day life prove—plays a much less important part than other causes of which the temporary disposition of the money-owners is the principal one. When I use the word "money-owners," I do not merely mean the rich, powerful as their influence necessarily must be.

The Financial Crisis of July, 1893, in the United States,

though it may have been started by rich speculators who, for purposes of their own, produced a tightening of the money market, was principally caused by the fears of the poor savers, who became afraid for their balances at the savings banks, and came in crowds to claim their own in cash. Savings banks cannot keep much ready money in stock, but are forced to invest the deposits for more or less extended terms, so that they may obtain the interest which their depositors claim from them. If an exceptional demand be made on them, when a tightness in the money market disables them from borrowing at reasonable terms enough to tide them over the temporary difficulty, they must of necessity suspend payment. The simultaneous demands made by their depositors thus caused a general suspension of these banks. Other financial institutions, whose creditors pressed for money in the same way, followed suit, and

finally the excitement of the small savers became the panic of the nation. Money was as good as unobtainable, and as much as $\frac{1}{2}\%$ per day, or 180% per year, was paid by solvent parties offering the best kind of securities.

This crisis of 1893 is especially instructive because there was no exceptional cause for the sudden alarm. No war threatened the country or the world ; no catastrophe of nature had caused unexpected losses ; the crops were good. The Chicago Exhibition brought millions into the country and into circulation ; politics indicated fair weather. It was merely the case of a sleep-walker quietly stepping across a chasm. He has not the least fear ; he has passed over much more hazardous places before without heeding them. But suddenly something or other awakens him ; he becomes conscious of his danger ; he sees it, and headlong he falls. The chasm between the amount of money due and the actual money stock may have been much wider at other times ; but the people did not realise it, and went on with their daily routine without paying special attention, when a mere trifle occurred : a report from somewhere that there was danger of suspensions—a danger threatening them all the time and sometimes even with much greater force, but a report now, spreading and swelling through the very effects it brought about. When this report made them start and survey the position, they immediately recognised the patent fact that there was absolutely no money to be got if they really should choose in a body to claim their dues. The simplest calculation would have shown this all along ; but their thoughts were elsewhere, and thus they had not seen what suddenly—like an apparition illuminated by the lightning of an ink-black night—gave challenge to their horror-smitten minds.

The Chronic Crisis

But not all are sleep-walking, awakening only in panic times, and dearly paying for their previous blindness. Our financiers have their eyes open all the while, and though they do not know the hour of the impending catastrophe, they see the chasm and they know their danger. This knowledge finds its expression in the high risk premium demanded, so high that the average debtor cannot pay it, and eventually collapses beneath

it. The permanent load of usury presses with a much heavier weight on the people than the dangers and losses of the occasional crises. These are the acute outbreaks of a chronic disease which is sapping the life-energy all along, growing in violence from year to year, from crisis to crisis. Take away this terrible nightmare generated by the certainty that whenever an exceptional demand for money may occur a crisis must ensue, and our wild struggle for life will have lost its intensity at once. But this struggle must be hopeless with a money whose quantity corresponds to that of a certain precious metal, a quantity so ludicrously small when compared with the demand that a credit building about thirty times the height of the narrow foundation had to be erected on it to enable us to carry on at all.

The Gold Basis an Inverted Pyramid

Jonathan Duncan, in a highly interesting little volume, "The Principles of Money demonstrated, and Bullionist Fallacies refuted," which appeared in London in 1849, touches this important subject. I quote his Chapter XIV. in full. At that time the credit building was not so high as in ours, though even then it exceeded Duncan's estimation of ten to one, if we include mortgages, the public debt, etc., which the author did not count in:

"That the use of Money is now so economised that Gold is sufficient for all Purposes.

"This fallacy mainly rests on the *clearing-house* system of the twenty-four London bankers, who settle their drafts twice a day by the payment of balances, and these transactions amount, in the year, to £1,500,000,000, which immense sum is liquidated by a comparatively insignificant sum of money. This contrivance, however, is a proof that the instrument of exchange is altogether incommensurate with commercial necessities, which inconvenience the bankers are compelled to overcome by economising money.

"But this does not put the arguments in a full and clear light. This country could not sustain itself without a very ample use of the credit system, in the shape of promissory notes and bills

of exchange, which are always floating to the extent of 250 to 300 millions. These rest on the metallic basis of $22\frac{1}{2}$ millions of gold, according to the Earls of Liverpool and Ripon, or of 30 millions of gold, if we take higher estimates. The gold basis, therefore, may be compared to an inverted pyramid. If, then, the basis consists of 30 millions, and the credit transactions amount to 300 millions, the basis is to the superstructure in the ratio of one to ten, since each million of gold sustains 10 millions of paper. Take away one-third of the basis, and then you remove 100 millions of credit securities, and a large stride is made towards barter; remove the whole basis, and money entirely disappears, and the system of barter is completely established. Such was very nearly the case in 1825, and such would literally have been the case in 1847 had not the Government letter to the Bank of England suspended the action of the bill of 1844.

"If, in addition to the London clearing house, we include the credit transactions of Liverpool; Manchester, Glasgow, and Bristol, and all the agricultural produce of the country, and consider that we have only 30 millions of gold to perform the business of 30 millions of people, we find that we have only £1 a-head. Then let a revolution come, which nothing is more likely to cause than a metallic currency, and those who now account themselves worth £20,000, £50,000, or a million of pounds sterling, would be only worth 20s., unless in the scramble some got more than their share, in which case others would be penniless. It follows, therefore, that if the national affairs were wound up, we could only pay a solitary shilling in the pound, after having applied a sponge to the national debt, of which not a single farthing could be liquidated. It is also undeniable that if the depositors in the savings banks were to make a universal demand for payment, national bankruptcy would be inevitable, unless that calamity were warded off by a suspension of cash payments."

The danger inherent in this state of things has been realised by growing numbers of thinking men, and it is the soil on which a strange plant has grown, called

Bimetallism

Bimetallism has been attacked on the ground that it is impossible to make two precious metals at the same time the standard of value, that if both are coined as legal tender money, one of them has generally to lose its money character, becoming a mere merchandise for the time. This seems plausible, for bimetallism presupposes free coinage of both metals at a certain unchangeable ratio. Suppose this legal ratio to be twenty to one, this would mean that anybody bringing to the mint 123.374 grains troy of standard (22 carat or $11/12$) gold has a right to claim for it a new gold sovereign containing the same quantity of gold; and anybody bringing to the mint twenty times the 123.374 grains (= 5.14 ounces troy of $11/12$ silver), can claim one pound sterling in silver coins, which are to be legal tender for all debts, just like the gold sovereign. But will the market price of the two metals—which follows supply and demand—permit the maintenance of a fixed ratio? You could certainly not buy in the market the 5.14 ounces troy of $11/12$ silver for nineteen shillings, and thus make a shilling profit on every pound sterling coined, never mind how much lower twenty pounds of silver could be produced than one pound of gold, as long as the mint gives one pound sterling's worth of shillings which are legal tender for the silver. But the price of money would fall together with, and in the same way in which the price of silver falls; the price of merchandise would rise, and especially one class of merchandise—gold, provided its cost of production did not cheapen in the same proportion with that of silver. It is certain that if it costs more to produce one pound gold than twenty pounds of silver, the price of standard gold must rise above one pound sterling for 123.374 grains; and consequently, not only will no more gold come to the mint which gives only a sovereign for this quantity, but the existing gold sovereigns will be withdrawn from the market and will sell as bullion, provided they have not suffered too much from abrasion.

-

Gresham's Law

would come into operation, according to which the better money is driven out of the market by the inferior one,¹ and the country will practically have a silver currency. This is not a mere theory, but has been the result of bimetallism wherever tried. Generally either gold or silver became a merchandise, and was withdrawn from its circulation as money, at least as far as wear and tear had not too much reduced the weight of the coins. My own experience during my apprenticeship in a banking house proved to me the fact most unpleasantly in the beginning of the sixties. It was a continual calculation whether gold was at a premium, or silver; and accordingly, gold or silver coins of different kinds were bought to be sold as bullion. Many a weary day had I to assort five-franc pieces into four different kinds. Those up to and including Louis XVIII. contain a certain amount of gold, and therefore were sold to Allard's refining establishment at Brussels. Those of Charles X. contain less gold, and were sent separately, fetching a little less. The newest pieces after these reigns, those of Louis Philippe, the Republic, and Napoleon III. were sorted out to go off as silver bullion to Amsterdam; while those of these last three reigns which were too much worn to pay as bullion were sent to the nearest branch of the Bank of France, and we drew bills of exchange on Paris against them. They alone were left in circulation, or in the vaults of the bank; the others disappeared, as fast as bankers and money-dealers could get hold of them.

¹ Better and inferior in the sense of the market price of the material coined. As William A. Whittick points out in his "Value and an Invariable Unit of Value" (Philadelphia, 1896): "The best money is that money that performs the money function the best and at the least cost. The use of a valuable metal as a tool of exchange is just as absurd as would be its use in the manufacture of spades and shovels, and other tools of industry. An iron or steel shovel would always drive out a gold shovel, just as cheap money drives out dear money. For three centuries this paradox has been the apologist of an absurd system of money—a system in conflict with the universal law that the fittest survives. The money that runs away from its duties—that refuses to circulate—is, according to this absurdity, the best money. The soldier who runs away from the field of battle is, by this reasoning, the bravest and best soldier."

Gresham's law began to produce its usual effects: the money with the greatest raw material value disappeared from the money into the bullion market. National bimetallism would then have received its doom if France had not resolutely maintained free coinage for both metals, in spite of the falling of gold below its ratio value; if she had then stopped free coinage of gold, just as she stopped free coinage for silver in our time. The consequence would have been the demonetisation of gold, and a silver monometallism for the same reason which at present gives us gold monometallism: the influential men in all countries, the great financiers and capitalists, preferring the scarcer and dearer metal as the money material, for their money claims upon their debtors thus obtained a greater purchasing power.

There is nothing in this which reasonable bimetallists will not agree to, as they are fully aware that bimetallism can only succeed if carried internationally: if all commercial nations—anyhow, the principal ones among them—open their mints to the free coinage of gold and silver to any amount, both metals being legal tender for all debts. This would so increase the demand for silver that its price could never fall below the relative money value assigned to it by the law. The use as money is paramount to any other to such a degree that the market value of the metal is bound to conform to its money value as long as the value of its use in the arts does not prime the money value, which might finally be the case if the money value fell too low. This might happen to silver in case the ratio between the two metals were put farther apart than the present market price of silver puts it, if this ratio were beyond 30 to 1. As far as gold is concerned, the limit of the ratio in the opposite direction also depends on the value which gold would maintain for its use in the arts, independent of its money value. The ratio was as low as 6 to 1 in Japan in the sixteenth century, and if Boeckh's "Political Economy of Athens" is to be believed, there were even times when silver had a superior value to gold. But how about

Cost of Production ?

Price never can keep far apart from cost of production wherever a commodity is regularly produced ; and if silver costs 30 times less to produce than gold, it seems that no law in the world can permanently change this ratio of value. This is correct ; but in thus reasoning, we ignore the influence which the demand has on cost of production. Ricardo's rent law is still more applicable to the precious metals than to wheat, for while a larger consumption of wheat is soon met by a correspondingly increased production through a slight pushing back of the margin of cultivation (see p. 55), the scarcity of the precious metals renders this effect on the margin much more powerful. It is quite certain that the remonetisation of silver would make mines paying which now lie untouched, just as the demonetisation of this metal has stopped the working of many mines which before yielded a dividend. The farther the margin is forced back, *i.e.*, the less fertile the least paying mine yet worked, the higher is the cost of production, and, according to Ricardo's law, the cost at the margin determines the market price.

Price of precious Metals determines Cost of Production

In other words, it is not the cost of production which dictates the price of the precious metals so much as their price influences cost of production. The remonetisation of silver would at once open to it the money market, together with gold ; and its value, as money, would dictate its price as long as this value is not inferior to that in the arts. As the latter is now found at a ratio to gold which bimetallists would never adopt, the ratio of 30 to 1, whereas the ratio they propose varies between 20 to 1 and 15 to 1, we may leave out of consideration this contingency of the value of silver in the arts ever exceeding its money value under bimetallism. Thus the only question will be how far down the limit of the ratio might be extended without forcing gold out of the money market. This question cannot be answered, for nobody can foretell what value gold will

preserve after it ceases to be used as money. Some say that under such a contingency it would not be worth one-tenth of its present price; which is probably an exaggeration, when we consider that silver only fell to one-half after its partial degradation.¹

Anyhow, I think even a reduction of the ratio to that of Japan in the sixteenth century of 6 to 1 need not necessarily drive gold out of the money market; and as long as this does not happen, such a ratio would simply mean that new silver mines will be opened and gold mines will be closed until the least fertile silver mine produces six pounds of silver at the same cost at which the least fertile gold mine produces one pound of gold. To understand this we have only to remember (see p. 55) that the cost at the margin of cultivation determines the price, and that in mines more fertile than those on the margin the saving in cost is paid out as rent or royalty, but has no influence on the price. The reduced gold price would cause mines to be abandoned which now are worked; others would yield a reduced rent, or cease to pay rent altogether. However, I have to add a few words in regard to another element entering into the cost of mine produce particularly, though not quite absent in other fields of production: *Speculation*.

¹ An interesting example showing how gold can even fall in value where it is not legal tender, in spite of its possessing that dignity in other parts of the world, is given by R. H. Patterson in "The Economy of Capital; or, Gold and Trade":

"In December, 1864, during the dearth of money at Calcutta, merchants who took £20,000 in gold to the bank could not get a single bank-note or rupee advanced on it. The gold was of no use to them as money, nor could they get money in exchange for it. 'The price of gold in Calcutta,' said the *Bombay Times* of January 9, 1864, 'sank early in this month so low that it could have been reshipped to London at 3% profit.' In other words, although gold is the standard of Europe and America, and although it has been used for centuries as money in India, the fact of its not being legal tender in that country sufficed to lessen its value to the extent of 4½%."

When once a rational paper currency will begin its triumphal march round the world, when one country after another will sell its gold stock, it is quite certain that those last in the race will be the heaviest losers, as is the case with silver at present.

Speculation and Mining

Del Mar states that the 90 million pounds sterling of gold produced in California, from 1848 to 1856 inclusive, cost in labour alone some 450 millions, or five times its mint value ; but this is not the economic cost I mean. His cost price includes the element of speculation, of gambling,¹ which makes lotteries such paying enterprises, because the dazzling effect of great prices entirely blinds the gambler to the well-known fact that, on the average, a lottery ticket only brings back a fraction of the price paid for it. This element of gambling may be responsible for the fact that certain gold and silver mines are worked though they swallow every penny expended, in the hope

¹ I do not wish it to be understood that I accept Del Mar's figures. He arrives at them by calculating the labour of miners at the wages paid during the mining boom, figuring from £3 per day for the year 1848 down to 16 shillings per day in 1856 ; and not satisfied with this, takes 300 days a-year as the regular working time. Even assuming these were only living wages, as cost of living was extraordinarily high, we have to go farther back to the providers of victuals, clothing, etc., before we can find the ultimate real cost of the gold. For instance, as much as a shilling was paid for an onion, and other things were in the same proportion. Now supposing the raising and bringing to market of 600 onions took a day's work for one man, can we count the £30 thus made as the real cost of the onions ? If such a farmer got fifty times as much for his labour as it was worth in ordinary times, even by taking into consideration his own greater outlays for necessities of life which he could not produce himself, have we a right to count the miner's labour, thus artificially raised in cost price, at this false level ? If all those who supplied the miners with necessities of life had only counted the usual wages of their labour, the miner would have been as well off with a fraction of the wages thus counted, and we certainly cannot reckon the extra profits so made in the cost of the gold. In fact, wages were artificially inflated, and as much has to be deducted on this score as on that of labour time. The idea of counting 300 days in the year on the average as really worked by thousands of dissolute men who, through debauchery and disease, often were more days idle than busy ! If we reduce Del Mar's figures accordingly, it is questionable whether a deficit will remain, especially when we consider that a good portion of the miners were shiftless men, adventurers who would have done very little work of any other kind if this work had not turned up. Del Mar entirely ignores the fact that there is such a thing as want of employment in this world ; he seems to assume that every man born finds in his cradle a billet for every year of his life at the regular rate of wages for 300 days. When we find such calculations or those of

of finally striking the long-expected lode ; but still there remains a margin beyond which speculation refrains, and this is the margin which must rise with the depreciation and fall with the appreciation of the metal. Speculation may have the effect of forcing the margin beyond its economic level, but this artificial level must finally follow the same laws as the economic one.

The Effect of Bimetallism on the Value of Money

Whether and how far bimetallism would force back the margin of production in gold mines, thus cheapening its cost by destroying the rent of now rent-yielding mines, depends on the question whether the large increase of legal tender money would have a price-depressing effect on money or not. It may

Lewis A. Garnett, manager of the San Francisco Assaying and Mining Works, who counts 100,000 persons as employed on the extraction of the precious metals in 1869, costing at the rate of 12 shillings per day during 300 days in the year ; £18,000,000 against a production of only £10,000,000 worth of metals—we wonder where such reasoners obtain their absolute certainty of 300 days' regular and good wages for 100,000 men if there had been no gold-mining.

There is no need for such exaggerations. Even the real figures supply a sufficiently stern accusation against our money system, which is at the bottom of such waste of economic power ; to which has to be added the ruin brought down upon fertile lands through placer and hydraulic mining. Del Mar estimates that 20,000,000 acres have been—in the United States—torn up by placer mining alone ; and a report from the Agricultural Bureau of the country computes the annual damage done by hydraulic mining at £2,400,000 a-year, which comes up to the whole yield from hydraulic mining and drifting.

Add to this loss the corrupting influences upon soul and body of such a congregation of adventurers coming together from all parts of the world, whose very work is a kind of gambling, and whose terrible hardships are a prolific cause of disease and death ! Certainly the accounts need no swelling by the voluble pens of statistic manufacturers. That the association of mining and gambling is not new is proved by the following passage from Adam Smith : " The same most respectable and well-informed authors (Frezier and Ulloa) acquaint us that when any person undertakes to work a new mine in Peru, he is universally looked upon as a man destined to bankruptcy and ruin, and is on that account shunned and avoided by everybody. Mining, it seems, is considered there in the same light as here, as a lottery in which the prizes do not compensate the blanks, though the greatness of some tempts many adventurers to throw away their fortunes in such unprosperous projects."

seem preposterous merely to express a doubt as to the absolute certainty of a general depreciation of money under bimetallism ; but I have already shown that we must not accept the quantity theory in the literal sense given to it by some tyros. Never mind what kind of money the twentieth century may have, business will continue to be done by means of the money representative, the money promise ; but this assuredly does not signify that the amount of the stock behind the promises is of no importance whatever. The admission of silver would certainly increase this stock ; but whether this increase would be sufficient is another question, as I shall presently show. Taking the price of silver as it stood before its demonetisation began, thirty years ago, the actual yearly production of both metals will not much exceed 100 million pounds sterling. From this we should have to deduct a very considerable part, at least one-half, for abrasion, loss, and use in the arts ; but I refrain, because we have to add, on the other side, the increase of the silver yield through the opening of new mines, which would be rendered possible by the rise in price following its remonetisation. Our present stock of gold is figured at 800 million pounds ; that of silver is unknown, as we cannot even guess at the amounts hidden and circulating in the East. Let us add another 800 million, and thus bring the total of our stock of precious metals to 1,600 millions. The yearly increase would, therefore, be one-sixteenth of the existing stock. To reach the amount of money promises so as to make our money representatives represent a reality instead of a dangerous fiction, our stock of 800 million pounds gold, which forms the basis of a credit building of, say thirty times its basis, would have to be increased to 24,000 millions of the new bimetallistic money. Even if we considered our present stock of silver available—and certainly the stock in the East will never come into our Western civilisation or into the vaults of our banks—it would take, at the present rate of production, 224 years before the 24,000 millions were reached. But this calculation presupposes two conditions : (1) Our gold and silver production must never fall below the present figures ; and, what is much more important, (2) Our turnover must not increase.

Now, whoever has realised the enormous increase of trade within the past century, in spite of the fettering effect which

our social conditions have exercised, with our currency system as one principal hindrance, will agree with me when I prognosticate such an immense increase for the next couple of centuries that, before the 224 years are passed, money representatives would have got farther ahead of the actual money stock than in our time, increased as the stock would be by the addition of silver; so that the basis of this circulation would certainly not be as broad as the one we now possess: 20 to 1 or 30 to 1. Independent of this, however, the mere cheapening of merchandise production through further technic progress would, as in the past, cause an appreciation of money.

For the time being, the remonetisation of silver might be beneficial for all that. The mere temporary widening of the insecure foundation on which our whole financial circulation rests would greatly revive confidence, and would largely increase credit and trade; until soon the money promises would as much outrun the money stock in both metals as they are now exceeding the gold stock. For a time prices might rise, and thus debtors would be eased in a double manner. The depreciation of the money would reduce their debt, and the greater demand for products of labour would give them a chance of satisfying their creditors.

Waste of Productive Power

But this help would only be a temporary one, and would be obtained at a ridiculous sacrifice. Millions more of workers would be employed in digging ores from the ground, extracting, transporting, and perhaps also coining these precious metals; as well as in feeding, clothing, housing the metal producers; making the water-pipes, machines and tools they require; or providing the means of transportation, etc. And what would be the real practical outcome of all this labour? Simply taking the money material out of one set of earth-holes to put it into another, where most of it will practically be as undisturbed as before the miners went down to get it, that it might be shifted from the vaults of Nature to the vaults of the banks. There the silver and gold can lie till Doomsday, without serving any other use than to form the basis of the credit paper circulation which will always be the real tool of exchange and payment.

Enriching of Mine Owners

I forgot another result: the creation of a large number of new millionaires and the further enriching of others, the owners of the gold, and especially the owners of the silver mines. How far the latter form the officers of the bimetallistic army of which the debtor class are the soldiers may be left uninvestigated. This is the plight we have come to at the dawning of the twentieth century by dragging into it that old fetish of a past civilisation: the commodity money.

The old Commodity Money Groove

Prince Bismarck once told a story in the German Reichstag of a ferocious watch-dog kept on a chain for a dozen years because he might otherwise have proved dangerous. For twelve long years the animal ran forward and backward in front of its kennel, as far as the chain would permit, until a deep rut had been worn into the ground in the form of a semi-circle. Meanwhile, the dog's teeth gradually decayed, danger faded away, and liberty was at last granted to him. The chain was taken off, and the dog released. The poor creature might have gone where it listed, but habit had so accustomed it to its old groove at the chain's length that it continued in this groove until it died. A stupid dog! Certainly; but are we less stupid in continuing in the old groove of commodity money, the old relic of primitive barter, when the greater part of our business is actually done by means of mere tokens only. Like the dog, we do not make use of our liberty to run free from the old chain from which in reality we have long since been released—the old chain of distrust and ignorance. Why continue making believe we trade by means of gold and silver? a belief sadly destroyed to our great cost whenever we want to put it to practical test. As the currency of our world is in reality money of our third class—token money to the extent of at least nineteen-twentieths, —why preserve the virtually worthless one-twentieth which exposes us to such terrible dangers, when practically the question in nineteen cases out of twenty lies not between gold and paper money, but between *no* gold money and paper money? Because we must have some

Standard and Measure of Value

is the reply we mostly obtain even from comparatively unprejudiced men. A nice standard of value indeed, which has appreciated almost 100 per cent. within the last thirty years! The very quality of the precious metals, which their defenders always fall back upon, makes them a bad standard of value. I mean their *intrinsic value*, as it is falsely called. Falsely, for there is no such thing as an intrinsic value. Value—in the sense of market value, here meant—is a relation, the mere result of supply and demand. Where was the intrinsic value of the bag of gold found by the dying Arab in the desert? Gladly he would have given it for a drink of water; but the water was not forthcoming, and the gold was valueless. No supply of water, no demand for gold in the water market then and there! It is true gold has a market value in most times and places, and water has not; but it is not true that this gives us a right to call value intrinsic in one case, and refuse to call it intrinsic in the other, nor does the value of gold remain more stable than that of most other commodities.

The friends of gold money point to the large stock which serves as a huge reservoir to eliminate the effect of a varying supply, but the very effect of this large stock disqualifies gold as a standard of value. As value is a relation, the most serviceable standard must be the one which most closely keeps unchanged its relation to the objects it has to measure. It is true that an unchangeable yard-stick is a better standard of length than a changeable one, but it is true only under existing conditions. In a world, however, in which everything without exception gradually grows, or in which everything decreases in size in the same proportion, though an unchangeable yard-stick might have the advantage of showing the general rate of growth or of diminution of things, and thus form a scientific instrument of great value for philosophers who are interested in such phenomena; still, such yard-stick would not be as practical and advantageous for the purposes of everyday life as one which changed in size at the same rate with everything else. To the merchant who purchased cloth by the unchangeable yard-stick before the cloth increased in length, and who sells the cloth by

measure at the old price, the increase would yield an extraordinary profit, and his customers would be losers at the same rate. If, on the other hand, everything in the world—except the yard-stick—became shorter, the merchant would lose, if under a contract to supply goods at the old prices without any regard to the change of length. Which is exactly what happened in regard to goods sold by the gold yard-stick, whose admirers boast that it has remained unchanged while other things have varied. The man who, for the last thirty years, has been under a contract to supply a regular quantity of goods yearly—say, as rent for land—has this land much cheaper than his neighbour who pays a money rent, for the same amount of money will now buy more goods, and the same quantity of goods will fetch less money in the market than they did thirty years ago. We have always to keep in mind that the price of goods measures the price of money as much as the price of money measures that of goods. More goods have to be sold to pay now a money debt of twenty or thirty years' standing than were obtainable for the money when it was borrowed. And a money of this class is called a perfect standard of value! Just as a yard-stick, which increases or decreases in length in the same proportion with all other things in this world, would be a much better measuring instrument of length than an unchangeable one, so a money which changes its value in exact proportion with that of all kinds of merchandise would be a much better measuring instrument of value, to all intents and purposes, than one the value of which remained unchanged. As value, in its economic sense, is a mere relation, the standard which changes as the things it measures change, and thus keeps up the same relation to them, is more perfect than the standard which has remained fixed, and has thus varied in the only direction in which its stability is of practical importance: in its relation to the things it measures.

Thus the defenders of silver are perfectly correct when they maintain that silver has for the last three decades been a more perfect standard of value than gold because its price fell with that of other merchandise. An amount due in silver since the last thirty years now buys about the same quantity of merchandise as it bought then, while an amount of gold then borrowed buys almost double what it could buy at that time.

But we have not the least guarantee that this relation will keep up for the next three decades. Processes of manufacture may be found which reduce the cost of all kinds of merchandise one-half, while silver becomes scarcer and rises in price instead of falling at the same rate as other goods. In this case our children would be in the same predicament with silver debts incurred in our time as we are in regard to gold debts due since 1870. After what I have said about the relation of the money quantity to the turnover, according to which it is not likely that even the greatest increase in silver-mining which we could expect would be likely to keep up with the growth of our turnover in merchandise and our money demand, it may be realised that such a change in the relation of the silver price to the price of merchandise would almost inevitably occur.

Wheat proposed as Money

Nor will it help us to look round for other classes of merchandise to serve as the money commodity, for we never have any certainty that their price relation to other commodities will not vary considerably in the course of time. Wheat has been proposed, for instance. We shall presently discuss the one great advantage which wheat money has over that made out of the precious metals, which goes far to balance its acknowledged inferiority in other directions, evinced by the facts that, value for value, wheat is much more voluminous than gold and silver, and that the precious metals are comparatively indestructible ; while wheat is subject to all kinds of destructive influences. Besides the cheaper storage, we can therefore accumulate an indefinite amount of gold and silver, but not of wheat, unless we artificially reproduce the conditions of Pompeii, where wheat grains have been found which germinated after eighteen centuries ; or of Egypt's mummies, which bestowed a much longer continuance of vitality. As such a system of preservation would be too costly to be of any practical worth, wheat would never be as perfect a store of value as gold and silver. But even if such a storage were practicable, it would merely result in intensifying another defect which wheat shares with the precious metals : the changing relation of its cost of production to that of other merchandise. The larger the store of wheat we should

have to accumulate, the more land for wheat culture would be needed, the farther back the margin of cultivation would be forced, and consequently the higher the wheat price would rise. The clumsiness of wheat as money, independent of the cost of storage, would not be so great a drawback as we might think at the first look. That a bushel of wheat is not as handy a means of exchange as a half-crown is undoubted ; but that a paper note promising a bushel of wheat is as easily pocketed as a paper note promising a half-crown is equally true, and also that most of our business is done by means of paper representatives. Even the smallest payments might be, and are, thus made. An Argentine five cents bank-note is worth a trifle more than a penny, and our half-penny postage stamps are also passing as money among the people. The wheat would remain in the storehouses as the gold and silver bullion are doing, only to be handed over in the exceptional cases in which the holders of the wheat warrants, the new bank-notes, would want the real money.

The want of scarcity is the other indictment made out against wheat—an indictment the very preferring of which exhibits the degree to which the financiers have influenced public opinion. They have made us look at scarcity as a good quality of money, because it makes the latter such a dangerous weapon in the hands of the money owners. The scarcer the money material, the stronger the monopoly which the possession of money confers, the tighter the corner into which the money creditors can squeeze the money debtors, the higher the usury they can exact from them. In fact, here we have the unavowed reason why the financiers have used their powerful influence to force through the demonetisation of silver, and thus to increase the scarcity of the money material. That England, the world's creditor, has always been the stronghold of monometallism, is not a mere accidental coincidence. Through the demonetisation of silver the debt due to its capitalists has been increased in purchasing power by untold millions, and the tribute chain they have laid on the balance of the world has been made proportionately heavier.

Superiority of Money which the Workers can produce

Cattle and wheat money are certainly clumsy currencies, but they have one immense superiority over gold and silver money: everybody can produce wheat or raise cattle by his labour, provided he can gain access to land, the condition without which existence is impossible. But few can gain access to paying silver or gold mines, and to obtain this class of money somebody has to be found who is ready to sell it for other goods. The more the productive power of labour increased, and consequently the easier it was for the money owner to procure those other goods, the more difficult it became for the producer to exchange his product against the scarce gold or silver money. The owner of this money has his choice among the products of the land. All are at his disposal; the producers are at his feet, anxious to sell their goods for the scarce money which they not only need to buy necessities of life with—barter might do that to a certain extent—but mainly to pay money debts, which are growing all the time, through the usurer's interest charges in consequence of the very difficulty of obtaining the money. With a money consisting of ordinary products of labour the usurer's chain could never have been forged; for while on the one hand the debtor could produce the money by means of his labour, not depending on the goodwill of a customer who owns the scarce metal money, on the other the treasuring of this money through its perishability necessitates so much labour that the money owner therefore becomes more dependent on the worker than the worker on him.

Leo Tolstoy's Illustration

Count Leo Tolstoy illustrates this important difference between money which the people can—and one which they cannot—produce, in one of his little essays, called "Money." He refers to the recent history of the Fiji Islands as told by Professor Yanjou in the *Literary Magazine*: "The inhabitants of the islands were prosperous. But in 1858 the kingdom found itself in a desperate condition: the Fiji nation and its king, Kakabo, wanted money. They needed 45,000 dollars to com-

pensate the United States for alleged injuries that had been inflicted by Fijians upon certain citizens of the American Republic. To collect the tax, the Americans sent a squadron, which suddenly seized some of the best islands as collaterals, and threatened to bombard and destroy the settlements if the tax should not be paid to the American representatives at the specified dates. . . .”

As the Americans raised their tax to 90,000 dollars, “Kakabo, pressed from all sides, and unfamiliar with European methods of credit transactions, acted upon the suggestions of European colonists, and tried to raise money from Melbourne merchants, at any rates and conditions, not hesitating to yield his kingdom to private parties. At Kakabo’s instigation, then, a stock company was formed at Melbourne. This stock company, which called itself the ‘Polynesian Association,’ made contracts with the rulers of Fiji, stipulating for itself the most advantageous terms. Undertaking to pay the debt due to the American Government in instalments at specified times, the Company, in consideration of this, received at first 100,000 and then 200,000 acres of the best land, chosen by itself; exemption from all taxes and duties, for an unlimited time, for its factories, operations and colonies, and the exclusive right, for a long period, of maintaining banks of issue, with the privilege of the unlimited issue of notes.”

Then the story goes on to tell how finally the king was forced to levy a direct tax in money, to raise which the natives sold their produce at any price, or they borrowed money on their produce at usurious rates; or else they had to go to the planter and sell their labour-power, at wages reduced as low as one shilling a week for an adult man, in consequence of the large and simultaneous supply. Hence, merely to pay this tax, the Fijian had to abandon his home and sell himself to the planter for at least six months, often having to go very far, to another island, in search of employment. Or six months’ prison for failure of the tax was the lot of the man, which meant forced labour for the first white settler who offered to pay the tax and costs for the prisoner.

“At first the duration of this forced labour was limited to six months, but subsequently bribed judges easily extended the term to eighteen months, often renewing the sentence at its

expiration. Very speedily, in a few years, the whole aspect of the economic condition of the Fijians was completely changed. Entire districts were impoverished and depopulated. The entire population, except the aged and infirm, worked for the white planters, to obtain the money needed for the payment of the tax, or to satisfy the judgment of the Court. The women in Fiji do hardly any field work, and therefore, in the absence of the men, the households were neglected or utterly abandoned. In a few years the population of Fiji became the slaves of the white colonists."

The sad tale goes on to tell of the final annexation by Great Britain, and the abolishment of the poll tax; with the further great improvement that produce was accepted in payment of taxes by the Government, to provide for the expenses of the administration, "until such time as will see money more plentiful on the islands."

I have quoted so extensively from this tragic little tale of real life because I wanted to show

The Great Difference between a Money consisting of the ordinary Produce of Labour and one which can only be obtained through the Sale of such Produce

If the tax levied on the Fijians had been demanded in cocoa-nuts, the impost might have enforced some extra labour and some privations; it could have been paid, though, without any outside help. But the tax was demanded in something not existing and not producible on the islands—gold and silver coins, or the raw material out of which such coins are manufactured. To obtain these things, the islanders had to appeal to the privileged parties who could procure them, and had to accept any conditions those men chose to impose. As Tolstoy very correctly points out, we are too apt to forget that

Money is not merely a Measure of Value and Means of Exchange, but is also demanded in Payment of Debts

Whatever advantages the precious metals may offer in the two first-mentioned qualities are greatly outweighed by the terrible danger their use as money implies in consequence of their having been made exclusive *legal tender for debts*. We have seen that the amount of debts in gold currency countries exceeds at least twenty-fold the value of the gold they possess, which gold is practically the only legal tender for these debts.

Power of Usury produced by our Legal Tender Money

The power of extorting interest for the loan of the scarce money enables the money owners to double their demands within fourteen years at 5%, a percentage rather below the average rate of gross interest (interest proper, plus risk premium). Experience has confirmed what arithmeticians could foretell in such a case—that the chain of usury weighing upon the workers gets heavier from year to year, while the victims' power of self-ransom grows weaker and weaker. There is no need even to call in taxation, which Tolstoy sees in the foreground : taxation payable in something which can be procured only from the party who imposes the taxes, or anyhow from those who are behind him with their Government bonds, whose coupons are nothing but indirect orders addressed to the tax-gatherers. Thus the monopolists of the scarce money have it in their power to fix their own prices at which they will accept labour's product, or even to decide whether they will be gracious enough to accept it at all. The whole of our civilised world has become an enlarged Fiji, whose inhabitants are the slaves of the money power, with the titular dignity of free workers. In the case of skilled labour the title may be even more sonorous, though the facts are unaltered. The poor professor at a German university, to whom the State gives the title "Hofrath" to make up for a not forthcoming increase of salary, is just as really a slave of the money power—under-paid and bowed down by the cares of

keeping soul and body together, of educating his children and keeping up appearances—as a simple labourer, with whom he perhaps would like to exchange rôles.

Need we wonder that, under such conditions, the wealth purchasing power of gold increases from year to year—that since three decades it has almost doubled?

A nice Standard of Value, indeed!

A standard changed at the will of the creditor class, who, besides the regular and certain increase of their claims which the widening gulf between the demands of compound interest and the gold-earning power of labour creates can at any time force on a financial panic that will put the produce of the workers at their mercy. It is just as valuable a standard as a yard-stick which a merchant can lengthen at his own good will when he goes round to make his purchases of dry goods.

The Power of Habit

If it were not for the power of that wonder-working giant, Habit, the fact—that with the full knowledge of all these conditions, we are still religiously conserving the gold standard—would be inconceivable. Only habit—which veils our eyes so that we see without observing the wonders of Nature all around us: the development of the tiny acorn into the mighty oak, the metamorphosis of the humble caterpillar into the brilliant butterfly—only habit makes us support the worst monstrosities without even thinking about them. And even where we think, it is generally in the direction of justifying or even sanctifying that which is, and merely because it is. As an amusing proof of this truism, I cannot abstain from quoting a few passages out of “Money and its Laws,” by Henry V. Poor. (Kegan Paul, 1877.)

The Financier's Gospel

“They (the precious metals) are the foundation upon which rests the superstructure of civilised society. Without them there could have been no exchanges, no wealth, no government,

no institutions, no history ; nothing but the eternal iteration of savage or barbarous existence. . . . Without them utter chaos would at once take the place of the order which now conducts to prosperous ends the industry of every labourer. . . . As without such standards there could be neither industry, wealth, nor civilisation, the inference is irresistible that the universal demand for the precious metals at their cost, and the uniformity of their supply, are, equally with moral laws, 'part of God's providence with man.'"

Then, speaking of the possibility of leaving money for the endowment of scientific institutions, and pointing out that this could not be effected by "dedicating thereto great store of food or clothing," which are speedily perishable, he says that, "in this way, through silver and gold, man can invest himself, as it were, with the attributes of immortality. . . . No commercial people ever have adopted, nor will they ever voluntarily adopt, standards of value other than those providentially appointed."

The man evidently believes in a bimetallistic providence, and if ever he should become a monometallist, he will have to change not only his currency theories, but also his theology and religion.

H. D. Macleod once made the striking comparison of modern circulation to the movements of a peg top which spins round on a very fine metallic point. As civilisation rests upon circulation, it is no wonder our civilisation is in continual danger of toppling over, and that it keeps going only by continual whipping! Under such conditions we need no longer be surprised at Mr. Poor's giddiness. Not everybody can stand the continual turning of a top on which he is forced to dwell.

My quotation from this amusing book reminds me that I have totally omitted to discuss the function of

Money as a Store and Representation of Wealth

The fact is, I could not well imagine that anybody in our times should be so hare-brained as to recur to such an obsolete conception, unless the reading of "A Thousand and one Nights," with its treasure-troves and its Ali Baba caves, or of Dumas'

"Monte Christo," has turned his poor head. Our modern Monte Christos, our Rockefellers, Rothschilds, Vanderbilts, Carnegies, etc., own very little gold and silver; the security of their wealth rests on something much more solid—on human stupidity, which makes something exclusive legal tender which does not exist in nineteen cases out of twenty, and so gives the power of claiming enormous tributes to the creditor class; on still greater human stupidity, which permits the few to own part of God's earth given to all, and to claim tribute from those who want to use it.

The wealth of our present world, including the land values, exceeds by far 80 billion pounds sterling, while the total value of its precious metal stock certainly does not reach 2 billions; in fact, would not reach one billion if the precious metals were demonetised. Of every £50 of wealth £1 now is, of every £100 of wealth £1 would then be, based on the possession of gold and silver. And such things are called stores of wealth!

An American lady wrote a tale lately, describing the discovery of immense deposits of gold. The State, their owner, distributes the metal among the people at the rate of \$10 of gold per day per inhabitant. The result is a general catastrophe, because not one of these "rich" people wants to work any longer, and all would have had to starve if the gold had not finally been confiscated and destroyed.

Let us contrast with this starving Golconda our New Zealand as it would be if it had not a particle of gold or silver either above or below the ground, but simply its present thrifty population, its soil, climate, and minerals of different kinds, exclusive of the precious metals. Does anyone imagine that production and distribution would stop, that less wealth would be produced? On the contrary, it will be quite clear to all who have learnt to understand the real function which the precious metals and the money made out of them are playing in our economic system, that, once freed from their pernicious effect on distribution, and consequently on production of wealth, our country would soon be much richer in everything required by human beings, and that our civilisation would rise to higher levels, in spite of our Poor friend and his co-religionaries.

Labour Time

Another standard of value—labour time—has often been proposed, and, in one case at least, tried: in Owen's "Labour Exchanges" (*see* Chapter IX.)—a very poor standard, as the failure of Owen's experiment proved. A good standard only with men like that peasant who had his tooth extracted by a celebrated dentist, and who protested when he was asked to pay ten shillings for the operation: "Ten shillings! Why, man, our barber at home only charges me a shilling, though he pulls me about the room for a couple of hours, and you want ten shillings for two seconds!"

Until the period arrives when communist utopias become reality, until the hour spent by an Andrea del Sarto at his canvas or by a Newton at his desk shall be estimated as valuable and worth the same pay as that spent by a washer-woman at her tub or a crossing-sweeper with his broom, labour time—as a measure of value—must be relegated to the domain of those day-dreams which give a zest to the poet's compositions, but which are better left out of economic dissertations. As long as labour is paid according to its market value—found as the result of supply and demand, the higgling of the market; as long as its price does not correspond to mere time units, so long will the labour-time standard remain a mere theory—and a false one at that—without any practical application, in spite of the most learned disquisitions of a Karl Marx and his fanatical disciples.

The device of counting skilled labour in multiples of ordinary labour does not advance us in the least, so long as there can be no fixed rule for the magnitude of the multiplier.¹

¹ Proudhon expressed it in these words: "The value of labour is a figurative expression, an anticipation of effect from cause. . . . It is a fiction by the same title as the productivity of capital. Labour produces, capital has value; and when, by a sort of ellipsis, we say the value of labour, we make an 'enjambment,' which is not at all contrary to the rules of language, but which theorists ought to guard against mistaking for a reality. Labour, like liberty, love, ambition, genius, is a thing vague and indeterminate in its nature, but qualitatively determined by its object; that is, it becomes a reality through its product. When, therefore, we say: This man's labour is worth five francs per day, it is as if we should say: The daily product of this man is worth five francs."

Only what is Marketable can be a Standard of Value

It seems unnecessary to insist upon the fact that nothing can be a standard of value without being obtainable in the market. It is a truism; for how can we gauge a standard of value except by the result of supply and demand in the market; and how can this result be obtained unless there is a real supply? To find out the value, the standard of money, it must be offered in the market like any merchandise, and only its regular and permanent supply can enable us to effect a continual verification of its price relations to other merchandise. If I at all insist on this self-evident truth, it is because I have often met with the assertion that gold might be preserved as a standard of value for paper money, even though the paper were not convertible into gold, a single gold piece being sufficient to preserve the standard. The persons who maintain such nonsense cannot see that the value of this gold piece is its purchasing power for goods, which can be estimated in no other way but by a market operation, and this single market operation may take our gold piece out of the market for ever. Where is now the standard for all other market operations? It is self-evident that these market operations must be continuous, as the purchasing power of gold in general can be found only by the regular supply of gold for other goods offered in exchange. In other words, neither the value of gold nor that of any other commodity can be found in any other way but by the higgling of the market, which higgling implies the offer of the real article in quantities more or less corresponding to the demand, and nothing can be a standard of value without having market value.

What is the best Standard of Value?

Criticising standards of value can be productive of little good unless something better than the existing ones is proposed; for even an inferior standard is better than none at all. From the negative part of my work I therefore now proceed to the positive. From the pulling down business I come to the constructive department.

The money of the first class has been found wanting. The money of the second class is only money of the third class burdened with an unnecessary expensive raw material. Instead of putting the money stamp on cheap paper it is affixed to expensive silver, copper, nickel, or whatever material coins are made of. Much labour is wasted; and for all that, forgery is easier than in the case of paper money, the raw material of which can be prepared in a special way with water marks, and other distinctions, which are imitable by paper makers only, and their trade cannot so easily be followed in secret as that of the coiner.

J. Shield Nicholson, in "A Treatise on Money," says (p. 220): "As to forgery, it is a curious fact that in Scotland spurious sovereigns are more frequently met with than forged £1 notes; and the art of engraving notes has made much progress since England had £1 notes in circulation (1826)."

Has Token Money Market Value?

We shall now pass on to class 3: the pure token money.

The first objection against this kind of money will belong to the intrinsic value domain which I have already exhibited at its real worth. But even on the principle that value is a relation, it seems impossible to compare a thing which has no market value at all with real wealth, with merchandise of any kind. At least, such has been the objection made by men like Professor Karl Knies (Heidelberg), who has written some valuable books on money and credit. According to him, money must be a merchandise, because you can as little measure the value of a commodity by anything else but the value of another commodity as you can measure a length without something that has a length.

We might agree with the learned gentleman without, in consequence, being compelled to exclude inconvertible paper money from the money category. What is the autograph of a celebrated man? What is a postage stamp when cancelled by the post office? Are they a commodity, a merchandise or not? Both sell as merchandise in the market, and Professor Knies cannot take their merchandise quality from them. He will also have to agree with me that their merchandise or market

value in no way depends on the amount of labour they embody, as the exploded theory of Ricardo and others would demand.¹

To a certain extent their value depends on their scarcity, for an autograph which can be had by the million or a common cancelled postage stamp which can be had anywhere for the asking are practically worthless, even if the former is in the handwriting of the most celebrated man, or if the other has the most beautiful picture impressed on it. But scarcity alone does not give value to an autograph; for the signature of an illiterate boor who only wrote his name once in his life does not gain any value thereby. The only real element of value in an economic sense in these, as in all cases, is supplied by the market, by supply and demand.

Value is the price which the market is ready to pay. This makes a picture of Raphael valuable in our markets, while in the markets of Central Africa it might not fetch as much as its canvas without the painting on it. This gives value to the autograph, to certain cancelled postage stamps, and to the piece of paper money. There is no difference from an economic point of view between the value of Raphael's Madonna, an autograph, a cancelled or uncanceled postage stamp, and an inconvertible bank or treasury note. Their value is what they will fetch in the market. The motives of the buyers have as little to do with the matter as in any other case. A race-horse which has just won the Derby will equally be a merchandise whether bought with the intention of making sausages from it or of winning races through its help. Nor will the merchandise character of a piece of paper be changed in the least, whether it is bought because a great artist painted something on its surface, because a great man appended his signature to some words written on it, or because the Government applied a certain stamp. Neither does it make any difference whether the picture is bought for its artistic value or for its scarcity, for the purpose of adorning a drawing-room or of completing a collection. The economic classification of the postage stamp

¹ Professor Senior says very correctly: "Any cause of limiting supply is just as effective a cause of value in an article as the necessity for labour for its production. The cost of producing money is only important as affecting the supply. Limit the supply, and it does not matter whether there be any cost of production or not."

or bank-note does not change in the least, whether they are bought for a collector's album, or if the one is used to prepay a letter and the other to purchase goods. The fact that a certain piece of paper printed with certain signs is accepted as money at a certain price in the market does not change its commodity character; and in so far we might as well have refrained from dividing money into three classes. In thus dividing it, we do not pretend that the money of our third class is not as much a commodity as our money of the first class; but merely that, whereas money of the first class maintains its market value after it ceases to be money—a new gold sovereign being worth a pound sterling even if sold as bullion—the money of the third class loses its market value after losing its money quality. Even this is only true within certain limits; for if all gold coins cease to be money after gold has been demonetised, their value as bullion will no doubt decrease thereby; and paper money, though demonetised, may still conserve a value for collectors or amateurs of certain classes of wall-paper.

Facts prove the Money Quality of Token Money

In this way, I maintain that token money is money even according to the German professor's definition. Not that I value this definition; it contradicts that given by others who more correctly define as money *anything which is universally accepted in payment*—and this is equivalent to the definition I adopted: only that which is legal tender for debts is money. If, according to a vulgar saying, the best proof of the pudding is in the eating, the best proof of the money quality of inconvertible paper notes is that they pass as money in many countries of the earth. Facts, however, have no such power over academicians as over ordinary mortals. They often act like the physician who had declared a patient incurable, and who, when the man had the impudence to recover in spite of the doctorial dictum, quietly told him: "Scientifically you are dead, sir!" Or our learned professor may imitate one of his colleagues, who, when shown that facts did not agree with his theory, replied: "So much the worse for the facts!"

The Assignat Scare

It is, however, insufficient to prove that paper money exists scientifically as well as practically ; we have to show that it is a better money than our metal money, or any money of our first and second classes. The general opinion is that paper money has been a failure. Gold may have appreciated considerably within the last three decades, but it never has shown such variations of value as most of the paper money we are acquainted with. As a warning example, three different historic cases are produced : Law's bank paper, the French Assignats, and the notes of the American confederacy. From parity with gold to no value at all are fluctuations which no commodity money ever experienced ; and it is not to be wondered at that, with all their drawbacks, our gold, or gold and silver currencies, are generally considered as superior to a paper currency. The ground thus taken seems unassailable, for the money of our first two classes can never lose its value to such an extent as paper money ; but for all that, I intend to prove that

Paper Money can be made a better Standard of Value than Gold or Bimetallistic Money

Adam Smith, M'Culloch, Ricardo, Tooke, Stuart Mill, Jevons, and other great authorities, have freely acknowledged, and the facts of every-day life have proved, that paper notes, though inconvertible into gold, if made legal tender, can be kept at par with gold, under certain conditions, *i.e.*, if they take the place of gold withdrawn from circulation. Nor will any noted economist doubt that they may even be at a premium when compared with gold coins, where these are demonetised and where paper alone is legal tender. 15½ million pounds of the notes issued by the Bank of England are inconvertible into gold, and yet they are at par with gold, as they will always be required for internal circulation. That paper money has often been of great benefit—even where it did not keep at par with gold—is also well known.

R. H. Patterson says in "The Economy of Capital" (p. 447): "How did England manage from 1797 to 1815, when there was

hardly a guinea in circulation? That period was the most trying which the British Empire ever came through, a period remarkable for a great expansion of our trade and commerce; nevertheless, though gold almost disappeared from circulation, no difficulty was found in settling the foreign exchanges; and the Government was even able besides to obtain large sums of metallic money to pay and feed our armies abroad and to subsidise those of other states."

The difficulty remains of finding the exact margin for the quantity of inconvertible paper money which can be kept floating at par. Must not the paper depreciate, when a certain amount required for internal circulation is overstepped, when, according to Gresham's law—that the bad money drives out the good—the gold coins have disappeared, and gold has to be bought at a premium for outside payments?

The History of the American Greenbacks

has shown this very clearly; for it belongs to one of those exaggerations or downright falsehoods, which have helped more than anything else to discredit paper money, that its advocates pretend: what brought greenbacks into disrepute, what finally reduced their gold-purchasing power to almost one-third of their nominal value,¹ was the law which made the interest of certain loans and the custom duties payable in gold. These people do not reflect for one moment what the loans were contracted for. At that time many goods required by the country, especially for war purposes, could not be produced fast enough within the States, and had to be bought outside where greenbacks were not accepted, but where gold or other saleable merchandise of some kind were demanded in exchange. Now for the time the merchandise or gold thus demanded could not be produced in sufficient quantity, and money had to be borrowed abroad to pay for the passive trade balance. The parties who lent this money wanted their capital and interest guaranteed in gold; for nobody could tell whether greenbacks would ever procure them gold at their face value or goods at a corresponding price, when even the very continuance of the Union was in question.

¹ On July 11, 1864, the proportion became 285 dollars in greenbacks for 100 dollars gold.

So the foreign loans had to be made payable in gold, capital and interest, and it became necessary to ensure a sufficient gold revenue to pay for the incurred debts. It is true the Government might have accomplished this otherwise than by making the duties payable in gold. These duties might have been made payable in greenbacks, with which the Government would have bought in the market the gold it required. But foreign exchanges naturally were against a country which had an unfavourable balance of trade to pay for with a soon-exhausted gold stock. Gold had to be borrowed in some way or other at its market price, which grew with the demand for it. The Government's financial measures had nothing to do with the premium thus paid for gold, which was made by the foreign exchanges. Even if the duties and loans had been made payable in greenbacks, the premium paid for the gold needed to pay the outside debts would have been just as high. The foreign creditors who had to lend gold would never have accepted greenbacks above their market price in gold, a price dictated by the foreign exchanges; and instead of paying duties in gold which they had to purchase at a premium with greenbacks, the importers would have had to pay their duties in greenbacks, but the amount of the duty would have been raised sufficiently to enable the Government to purchase the gold it needed. The only difference would have been to force the importers to provide the Government with enough greenbacks to buy gold, instead of having to buy the gold themselves. Greenbacks were bound to fall in value in either case, as long as their issue exceeded a certain quantity demanded for internal circulation; and more money being required to pay for outside goods, more greenbacks had to be offered for gold in the market. Still, their fall would never have been so considerable if the Government had not committed the folly of authorising the so-called "*National Banks*" to issue a currency of their own, even making them a present of the interest profit thus obtained. This concession added unnecessarily to the inflation.

The friends of paper money would do well to profit by an experience daily realised in any department of reform work: the experience that

Exaggeration and Radicalism defeat their own Ends

Temperance reformers, in English-speaking countries, instead of working for mere temperance, fight for total prohibition, and thus make enemies of many who detest the use of alcoholic drinks, but shrink from infringing the freedom of the individual. If they took example by those countries which are working on the Gothenburg or related systems—aiming at decrease of drunkenness—they would be much farther advanced. Fifty years ago the annual consumption of alcohol in Scandinavia was 30 litres (nearly 7 gallons) per individual. It has now been reduced to 2 litres ; and in Norway *delirium tremens* has become an almost unknown disease. An anti-treating law—fining the publican who serves liquor to any person who does not pay for his own drink—might do away with one of the most prolific causes of drunkenness, and one of the most idiotic limitations of personal liberty : the unwritten law which, in the colonies, at least, compels every member of a party of friends who meet at a bar to pay for the whole group, so that each individual pays in turn, and each drinks far more than he would have imbibed otherwise—with inevitable consequences. Temperance would also be promoted by all improvements in the economic condition of the people ; for experience demonstrates that misery causes drunkenness quite as much as drunkenness causes misery.

Single Taxers afford another Example

of radicalism overshooting its own mark. Their opposition to any kind of land restoration which includes a system of compensation has done more to keep back the progress of the great idea than any other cause. I lately met one of their class, a highly estimable gentleman, who, though he would not deny the fact that land nationalisation by purchase must bring the land into the people's possession in less than one-quarter of the time, and at less cost than the system of gradual confiscation by means of a tax; simply answered that he would never sacrifice principle to expediency. My reply that principle did not weigh so much with me as the wish to save millions of our own

contemporaries from misery, instead of postponing the full effects of the reform for generations yet to come, did not seem to make any impression.

I have seen

Co-Operative Settlements

go down because of a similar radicalism which insisted on complete communism, that finally broke up the society, instead of consenting to a more moderate kind of socialism which might have maintained the organisation.

If anywhere, such radicalism is truly pernicious in the domain of currency reform.

The Greatest Enemies of a Rational Currency

are those radical apostles of paper money to be issued to any amount, secured by wealth of some kind, preferably real estate. This class of currency reformers finds its principal adherents among land-owning farmers, who thus hope to obtain from the State cheap money on mortgages. Such a new concession made to land-owners would merely add to the unearned increment by forcing up the prices of land, and thus the compensation which the community would have to pay some day when the people take back their own ; but leaving this aside, the whole plan shows an entire ignorance of the currency question.

The plan is condemnable, because

There can be only one kind of Security behind Money of our Third Class, Token Money, and that is its Wealth-purchasing Power

If real estate is the wealth on which the money is issued, the money is only good if the real estate can at any time be obtained for it, which is not at all the intention of the men who propose the plan. They do not dream of handing over their farms and houses to anyone who presents the money lent to them on such security. They merely want to keep this money for an indefinite time, or anyhow for an extended period, at a

low rate of interest. Their real estate is not in the market for the money they received ; in fact, usually it is not in the market at all, most certainly not at those very periods when people want to see something substantial for the paper in their hands—those times of crises and panics ; for at such moments their property would certainly not fetch more than was borrowed on it, and probably not even that. Thus the security is no security at all in the only sense in which a security is needed, *i.e.*, to keep up the full purchasing power of money, the security that is quantity corresponds to the quantity of merchandise offered for money in the market.

Currency reformers of this class have done more to retard money reform than the most conservative gold monomaniacs. Can we blame the latter if they stick to their gold standard as long as experience justifies them in the belief that gold, with all its fluctuations of value, is after all not subject to such vagaries in this direction as most of the paper currencies on record ? But they leave out of sight the fact that

Not a single Case is known in modern History where an inconvertible Paper Money was issued under normal Conditions

for the purpose of providing a better money than metal coins. Invariably such money was issued in times of wars or revolutions, or at least as the result of acute financial distress. Under such conditions it could not be expected that the issue would conform to certain rules adapted to maintain a fixed standard of value for the paper, which does not prove that such rules might not be devised.

On the contrary, a closer investigation will show us the feasibility.

A perfect Standard of Value for Money

is reached when the average price of merchandise does not vary, and this can only be obtained where the quantity of the money supply in the market adapts itself to the demands of the market, where at once more money appears when prices tend to go down, and disappears when the tendency is in an upward direc-

tion. This is impossible in the case of metal money, whose supply depends on the goodwill of those who control the bullion market; but it is within the reach of possibility in the case of paper money, which can be supplied to any amount at the shortest notice, whose issue can thus be adapted to the market's exigencies, more money being issued when prices fall, and money being retired from circulation when prices rise. Thus, *whereas our present law fixes the price of gold, the new task is to fix the average price of goods in general.*

Money Circulation regulated by a Tabular Standard of Prices

All we have to do is to keep a watch on the average prices of goods, and to regulate the money circulation accordingly. All those commodities which constitute an appreciable portion of the general turnover have to be tabulated, their prices being multiplied with the ratio which their turnover bears to the total of the yearly turnover of the country. The addition of the products thus obtained gives us the average figure which has to guide us in the issue or withdrawal of the paper money.

To make this clearer, I shall give an example taken from "Die Anpassung des Geldes und seiner Verwaltung an die Bedürfnisse des Modernen Verkehrs," (The adaption of money and of its administration to the wants of modern circulation), by Silvio Gesell. (Buenos Ayres, 1897.)

Taking the total turnover of the country to be represented by the figure 1,000, he gives the relative turnover of the following commodities, which here are supposed to comprise all commodities bought and sold in the country during the year, by the first figure annexed to each. He then makes the figure 1.00 represent what has been agreed to stand for the normal price, reducing all future prices to a percentage of 1.00. The last column gives the tabular standard,

Normal Table

Article.	Quantity.	Price.	Amount.
Butter	100	1.00	100
Coffee	10	1.00	10
Linen	60	1.00	60
Fruit	30	1.00	30
Corn	300	1.00	300
Meat	100	1.00	100
Silk	50	1.00	50
Sugar	100	1.00	100
Wine	150	1.00	150
Wool	100	1.00	100
	1,000		1,000

Now he takes two other periods at which the relations of quantities and prices have changed, as in the following list :

<i>First Period compared.</i>				<i>Second Period compared.</i>		
Article.	Quantity.	Price.	Amount.	Quantity.	Price.	Amount.
Butter	110	89	97.90	120	102	122.40
Coffee	15	105	15.75	15	84	12.60
Linen	40	67	26.80	30	45	13.50
Fruit	40	115	46	50	102	51
Corn	280	111	310.80	270	93	251.10
Meat	130	107	139.10	140	120	168
Silk	45	86	38.70	40	70	28
Sugar	125	106	132.50	150	95	142.50
Wine	125	81	101.25	120	105	126
Wool	90	88	79.20	65	79	51.35
	1,000		988.00	1,000		966.45

The results show that in the first period prices have fallen 1.20%, in the second even 3.34%, below the normal rate, and, of course, money has appreciated accordingly; never mind what has been the cause of the price fall. Whether this fall is the consequence of a greater scarcity of money or of reduced cost of production is absolutely immaterial. All we have to take into consideration is the changed relation between the value of money and the value of merchandise. If the change is in favour of money, *i.e.*, if the same quantity of money buys more

goods, or if less money buys the same quantity of goods, money has appreciated; and, in the opposite case, it has depreciated. To bring back the normal relation between the two, more money has to be issued in the first case; in the other, money has to be withdrawn from circulation.

It is a matter of indifference which name we give to the new money units. We may call them tom-toms, pounds, dollars, francs, or whatever we please. Whatever we call them, they will represent nothing but a certain and unchangeable average quantity of goods and services which are obtainable for the unit in the market. The figures of the average price table determine this quantity once for all. It is also immaterial on which prices we base the first standard table. We may adopt the prices of the year in which the reform is introduced, or we may take the average of a number of preceding years, as Wallace proposes; and if we consider certain prices as temporarily too low, we may put them in at higher figures; though to avoid any unnecessary departure from our habits, it is not advisable to go very much above existing prices or to adopt any new name for the unit. The objection that our new paper pound will be something different from the real meaning of the word—a gold piece containing 123.374 grains of standard gold—has certainly little weight when we consider that this gold pound has itself departed from its real signification: a pound's weight of certain silver coins. Gradually the coins were made to contain less and less silver, until finally the value of the pound sterling became reduced to its present standard. In Russia, where the paper rouble had taken the place of the gold or silver rouble for half a century, the new gold rouble lately issued was adapted to the paper rouble and not to its metal ancestor, containing 40% less gold than the latter.

History of the System

It may never be found out who was the first to reach the simple solution of the problem here given; and, as is often the case with great inventions and discoveries, it is very likely that the idea germinated at the same time in different heads.

Gesell has not been the only inventor of this excellent system. England's greatest living scientist, Alfred Russel

Wallace, added another leaf to his laurel wreath by his proposal of a paper currency whose circulation is regulated by the prices of merchandise. I found the essay in the *Clarion*, end of 1898.

Wallace's system is not so exact as that of Gesell. If I understand him correctly, he fixes once for all the quantity relations of the different articles, whereas Gesell takes the actual figures of the year.

I further met the proposal of this scheme in "Money and Social Problems," by J. Wilson Harper, published in 1899. I cannot find out how long before this date the author held the idea, which also forms the basis of an article published by the Hon. C. L. Poorman, editor of the *Ohio Bimetallist* (middle of 1899). It is likely that this is only a repetition of the same proposal made by the latter at a previous date.

Differing from former Tabular Standard Proposals

This excellent scheme must not be confounded with the so-called tabular standard or multiple standard device mentioned in "Money" by W. Stanley Jevons, and, according to him, first proposed in 1822 by Joseph Lowe, eleven years later by G. Poulett Scrope, and in 1838 by G. R. Porter. According to the *Arena*, the idea of the multiple standard was carried out in practice as much as forty-two years before Joseph Lowe proposed it. The magazine published a reproduction of a Treasury Note issued in 1780 in the State of Massachusetts, which indicates that their currency of that time was not reckoned so stable as currency now is in England. The note promises repayment not of so much gold, but of a sum equivalent to given quantities of corn, beef, wool, and leather. This multiple standard was intended as a safeguard against fluctuations in the currency, and is described by the editor as the most nearly honest piece of money ever issued in a civilised state.

The only point of resemblance between the two systems is in the method of finding an average of merchandise prices by tables. Apart from this, the "tabular standard" is just as impracticable as the system advocated by Gesell, Wallace, etc., is easily applicable. Any business man can see this at the first glance, when he

knows that the originators of the tabular standard idea propose to adjust all payments for debts or contracts according to the variations of their table results. Supposing, for instance, that these tables show a decrease of the average price standard of 10%, all debts and contracts are in that case reduced 10%, because money has appreciated to this extent, and consequently, it is only just that the creditors receive so much less of this more valuable money. The amount of pensions, salaries, fines, taxes, duties, etc., is also to change all the time according to the results of the tabular standard. Just imagine what that means! A man has to pay his butcher a bill of last year, another has signed a promissory note, and so on through thousands of mutual engagements of daily life. Before any payment is made the tabular standard must be consulted, a discount has to be taken off or a premium is added, according to this tabular standard; and these complicated calculations are to be carried on daily, hourly, and mostly by men to whom the job of multiplying quantities with prices and adding the products, when they buy a bill of goods, is just complicated enough. When they have borrowed money, the calculation what they have to pay is hard enough for them; and now they are also to add or deduct percentages varying with the money standard. Most of them will have to rely on the cleverer people who understand "this new fad"; and we know what that often means. Adding another trap for the unwary, and heaping additional work on everybody, would cause the tabular standard to be looked at as such an unmitigated curse that people would rather put up with all the dangers of our monetary changes than correct them in this insane fashion.

The general abhorrence of inconvertible paper money entertained by most English economists of that period, alone can explain how such intelligent men should have stumbled—by the only practical application of the tabular standard—into such impossible proposals. Had they been less prejudiced they would easily have seen that, instead of using their standard to change money obligations, leaving the money itself untouched, the obligations might have been left untouched by changing the money circulation accordingly to the standard. By thus approximating the price of money to the price of merchandise, its only gauge, the value or price of money, its purchasing

power, remained invariable, and obligations could safely be left alone.

The way of ascertaining the standard had already been improved from the original raw notion of simply taking the prices of a number of articles and finding the arithmetic or geometric middle—the system used by Laspeyres, Sœtbeer, Jevons, and others—to the method proposed by the German professors Drobisch in 1871, and J. Lehr in 1885, of taking into consideration the quantities of each merchandise.

Difficulties

Professor Erwin Nasse sees a certain difficulty in the work of exactly finding the quantities of the different articles which are to form the basis of the calculations. Others have discussed the question whether wages and tools of production, or whether land values, *i.e.*, rent, ought to be included in the lists. In any case, we shall never quite eliminate all sources of inaccuracy ; but by the wanderer lost in the wilderness, even the rough indications of the native he meets as to direction and distance will be welcomed. He will not refuse to avail himself of them because a map with exact delineations would be preferable. Even an approximate price standard is better than none at all, and certainly no system of tables made out on the best available data would hide from us fluctuations like those which have almost doubled the value of money within the last three decades, or which, in the English crisis of 1857, caused the prices of the principal staples to fall 27% within two weeks ; not because their cost of production had decreased so much within that short period, but because money had suddenly become exceptionally scarce. R. H. Patterson, who gives statistics in "The Economy of Capital" (p. 190), mentions another price fall of cotton, going down from 7 to 43½% for the different numbers between August 15 and November 5, 1866, in consequence of the scarcity of money (p. 366). It would never do to give up the attainable because perfection seems out of reach. However, I do not think the difficulty quite so great as Nasse finds it. Of course, we would not take

Retail Prices,

but the prices obtained by the producer and those paid by the importer. If we also gave retail prices, we should only increase the total of each article in the same proportion without affecting the result. If prices vary in different parts of the country, we should take the middle price.

Raw Materials

would figure several times in the list wherever they are used as the component of other merchandise; but so would manufactures which enter into the composition of other fabrics, such as leather in shoes and saddlery wares, cotton thread in cotton cloth, etc. This can only affect the quantity relation which each article can claim; but as the same addition to quantity takes place in all branches of manufacture it would not sensibly affect the final result. It makes no difference whether in our lists the price of every article is multiplied with half or double the quantity: the average will not change thereby. Neither can it well be avoided that some manufactures which enter into the composition of others will not appear in the list, because they are produced in the same factory, and thus do not pass through the market; as, for instance, where the yarn is spun and weaved in the same works, or where the tannery and boot factory are in one hand, and thus will only figure once where others manufactured by different firms are counted twice. This does not matter much, however, as such causes of error will occur in different branches, and thus will compensate each other in a certain measure.

Land Values and Rents,

on the other hand, ought not to figure in the list, for their relation to the value of money is not the same as that of the products of labour. Though both rise with the rise of prices and the depreciation of money, it does not follow that the opposite tendency will force them down; for the simple reason that the fall of prices in our times is mostly due to the greater pro-

ductivity of labour in consequence of technic improvements, and that the fall has by no means kept pace with the increase of this productivity. The surplus appears to a small extent in a rise of wages, to a larger extent in the increase of profits, including interest, but chiefly displays itself in the rise of rent. Rent and land values have risen much faster than the value of our metal money, which is easily accounted for by the fact that, though the quantity of our metal money does not increase so rapidly as the productivity of labour, still it increases quicker than the surface of available land. The price of the latter, therefore, is forced up more rapidly, especially as a growing portion of it is absorbed by the necessity of providing the increasing population with house-room. The inclusion of land values and rents in our tabular standard would therefore simply falsify the result. We might see prices of goods fall with rising land values and rents, and if we included the latter in the tabular standard they would produce a corresponding counter effect on the influence of the price fall, and thus prevent a sufficient issue of new money. On the other hand, an issue of money would cause such an upward tendency of land values that the currency restriction this would entail would overstep the real necessity.

The question whether

Wages

ought to figure in the list, or not, is a little more complicated. In Chapter VIII. we shall see that, at present, wages enter into the retail price of goods to the amount of not over one-sixth, and that labour could conquer enough of the remaining five-sixths to treble its wages, without thereby raising the price of goods paid by the workers as consumers. Any future increase in the productive power of labour could further increase wages without raising prices. If wages figure on the list their rise restricts the money issue, and consequently reduces prices. A fall of prices thus produced, on the other hand, reduces wages. The effect of such a reduction on the tabular standard causes circulation to increase and prices to rise, until finally the point of rest would be found in a partial fall of prices and a partial rise of wages. Prices might, for instance, fall to one-half, and

money wages double, which would be identical with a four-fold increase of wages measured by their purchasing power. If, under the same conditions, wages are not counted in the list, the average prices of goods remain unchanged, and money wages increase four-fold. Their purchasing power would be the same in either case.

I think it is better to leave the average prices of goods at the same level, and therefore to omit wages from the list, because not only much work is saved, but a rise in the purchasing power of wages through a reduction of prices would have to be shared by the workers with the savers, the purchasing power of whose economies must rise with every fall in prices. The objection might be made that this would mean a discrimination to the absolute loss of those who live on their incomes, because the wages of domestic servants would also rise without causing a reduction of merchandise prices; but persons who keep servants could well afford the slight difference, even if it has not been made good to them by their higher earnings and greater saving power as workers. Still, I see no reason why wages of domestic servants and all other wages which do not enter into the prices of tabulated products should not be tabulated.

Methods of Issue

We now come to the methods of issuing the paper money or of contracting the circulation when needed. Different systems are possible, and each would probably find a partial application. To a certain extent, the State would probably issue the money for public works of different kinds—for salaries and wages, for the defence of the country, etc.—and would accept it for duties, taxes, fares, freights, etc. Beyond this, the system of issue practised by our banks would no doubt be followed; overdrafts would be allowed and bills discounted. This system supplies the simplest mode of reducing the circulation when necessary, by calling in overdrafts, temporarily raising the rate of discount or stopping discount altogether.

Crises Prevented

The danger now connected with such a procedure—crises often being precipitated through the very efforts which the banks make to prevent them—could not exist under the new system. The reason is obvious. A financial crisis and a fall of prices are inseparable, for every merchant who is in financial difficulties naturally first tries to sell his stock at a sacrifice, if necessary, to obtain ready money ; and wherever many merchants are making the same efforts simultaneously—as must be the case in any crisis—a rapid fall of prices must result. The case of the 1857 crisis, with its price fall of 27%, has illustrated this to us. But when prices fall under the new system money is immediately issued, and will meet a ready demand, because this very fall of prices shows that for the time there is not money enough in circulation ; and this new issue must at once put an end to the crisis. Or rather, there will not be an end because there is no beginning, of which the crisis of 1847 furnishes an illustration : the trouble disappeared as soon as the Government showed its readiness to help. We saw that, practically, the Bank of England did not even make use of its privilege to issue more notes to any extent worth mentioning, for as soon as it was known that the notes could be obtained they were no longer demanded, because at once all over the country the money came out of its hiding-places. The United States crisis of 1893 was brought on merely because the depositors in the banks did not think they could get their money ; and often, in a panic, we find people coming to demand their balances, and at once depositing the money again after they have obtained it. In fact, the first barometric sign of a trade depression, and its outcome, a financial crisis, is a fall in prices ; and where such a fall at once brings more money into the market and thus stimulates the demand for merchandise, the prices must as quickly rise again, and the depression must cease.

However, this is a subject better treated later on, when we investigate the economic effects produced by a scientific paper money. Nor is this chapter the place to discuss the question whether the issue of the paper had better be left to private banks or to a State bank. My purpose here was merely the definition

and classification of money in the first line, its value in the second. The proof had to be supplied that it is possible to create a paper money which can be relied on to maintain its standard of value better than gold coins, the limited stock of which can be cornered at any time with ease, in a world where a mere hundred of our millionaires are worth 1,200 million pounds—an amount one and a half times as high as the whole stock of our gold. Whereas the issue of gold money is narrowly limited by the existing gold stock, that of paper money can be adapted to the demands of the market. Cornering and locking it up can in no way influence the market, because at once other money will take the place of the money withdrawn. Paper money is thus the only money the value of which can be made as good as unchangeable,

CHAPTER IV

THE EFFECT OF A SCIENTIFIC PAPER CURRENCY

(a) In National Intercourse

Crises are Chronic

IT is much easier to show how financial crises arise than how we ever are free of them. In reality, the chronic form of the crisis never quite leaves us, and it is only its acute phase which is meant when we speak of periodically recurring crises or financial depressions. That even the acute stage has not become permanent can only be ascribed to that wonderful adaptability of our human nature which enables us to scrape our way in all climes and under all kinds of conditions.

Two factors are at work : an almost incredible increase of trade, and a money to do it with not adequate to the service required. To make the money correspond to the turnover to which it has to minister, its quantity requires at least a twenty-fold increase ; and this amount would again have to be increased four-fold were latent trade possibilities to be considered : that immense increase of our turnover which would ensue if the obstacles presented by inadequate means of exchange were removed.

These are the factors with which our powers of adaptability have to cope. We know how they accomplish the task : how on the narrow money basis an immense credit building has been erected, in which trade lives and moves as well as it can. A building about thirty times as high as its base, a dangerous structure, but after all—though a great deal too narrow—so wonderfully well built that, unless a depression in the commercial or political atmosphere brings disturbing air currents,

apt to shake the flimsy fabric, or unless the earthquake of panic tears away part of the base, it stands for a time praised by all beholders, especially by those who collect the rent of the house. A high rent, forsooth, as it must be where such a risk premium has to be taken into account ; a rent which is bound to ruin those who have to pay it in the shape of usury ; a rent rapidly increasing through compound interest, and thus rendering the sojourn in the flimsy structure more intolerable from day to day.

The destructive Effects of our Currency

To leave allegory and come back to plain business language, I simply invite the reader to look a little closer into the nature of the currency which serves as our medium of exchange. Those cheques, drafts, promissory notes, etc., are not passed without sacrifice by those who use them as a means of payment. The profit they expect from their business transactions may not cause the interest they pay to appear exorbitant for the time, but this interest is secured to the creditors by the most valuable possessions of the debtors. The hopes of profit in most cases prove evanescent, as they are bound to do in a business world existing under the Damocles sword of the continual danger that they owe from one day to another a money which—in nineteen cases at least out of twenty—does not exist. Too many unanticipated losses come in on every side, while expected profits are reduced through hundreds of causes. On the other hand, interest accumulates with the certainty of death, and nobody better realises the rapid passage of time than the man who has signed a P.N. due at a certain date. If the creditors were forced to accept in payment merchandise or services at fair prices, things might be arranged more easily, for our productive power is immense ; and great as the debt is, if it could be paid with goods and services, it would soon be cancelled, capital and interest. But the creditors do not accept this kind of payment, or if they do exceptionally, it is only in case they can at once sell the goods for cash without any loss. The amounts thus due are so enormous, however, that where such sales are tried on a large scale, prices are considerably forced down. Ruin stares the debtor in the face ; and it comes certainly when

the creditor realises on whatever securities are in his hands, the result being a further impoverishment of the debtor class to the benefit of the rich. In my first book, written in German, "Auf Friedlichem Wege" (1884), I drew from every-day life the picture of

A Money-Lender and his Victims

A farmer borrows money from the money-lender to increase his stock; a manufacturer because he wants to add to his plant; a builder to construct some houses; a merchant to obtain more business capital. All give mortgages to the capitalist. Their enterprises, somehow or other, do not come up to expectations, and the final outcome is the ruin of the debtors; while the creditor who buys in their properties at the sale, and realises on them when times are a little better, becomes still richer. As a rule, the well-secured money-lenders play the part of the croupier at Monte Carlo. Those who deposit their money on his tables may, once in a while, haul in a gain; but in the long run, the croupier rakes in most of the money within his reach. He plays on the certainty of mathematical average results, while the gamblers count on mere occasional possibilities.

Part played by Land Ownership

No doubt private land ownership plays an important part in this game, in which the workers are the losers, while those who can secure their wealth through the monopolisation of Nature's indestructible resources, sold or pawned to them, become constantly richer; and certainly no permanent reform is possible unless we manage to withdraw this security out of the hands of the few by making it the property of all. Unfortunately, many clear-sighted men who have mastered this great truth do not realise the important function which our present currency system plays in the process.

Scientific Currency gives Immediate Help

That a scientific paper money would render an acute financial crisis impossible was demonstrated in the last chapter. Every

such crisis is accompanied by a fall of prices, and with the scientific currency any fall would at once call forth a corresponding issue of money. At once, for the officials entrusted with this work need not wait for the periodical statistics when without their aid a fall of prices is clearly observable. The tabular standard will be merely the instrument for final adjustment of the more delicate oscillations and to prevent abuse.

Of course, there always will be unsuccessful men who cannot pay their debts, and whom no reform of any kind could help. Such men will have to be weeded out of the special field of work for which they are not adapted, and helped to find their legitimate scope. There always will be Micawbers ; but even Micawber found his sphere of action after repeated failures had shown him how not to do it, and this process would be much facilitated through social reform.

We leave the exception and come to the rule, to the man who would remain solvent if his work, or the result of this work, his product, were saleable at paying prices. Our bankruptcy courts would have very little to do if this class were exempted from its operations, nor would the waste inherent in our present system of distribution be so great. It is just this difficulty, experienced by our producers, of selling their product at paying prices which forces thousands out of the productive field into that of distribution. The unsuccessful tradesman further increases the army of shopkeepers, of whom a fraction might do the economic work of the lot ; so that most of them are mere drones, or—to express the fact more correctly—most of the work done by them as a class is wasted.

The Causes of the Crisis not due to Changes in the Process of Production

Our most important task, therefore, is to find out how the producers are to be enabled to sell their product regularly at a price which pays them decent wages for their labour.

The times are past when economists could console themselves and their readers with the reflection that—through the introduction of new machinery increasing the supply in some special

field of production, or the changes of fashion diminishing the demand in another—temporary want of employment may be caused which will soon be adjusted by a new distribution of productive forces.

If temporary want of employment were the cause of the crisis we should grow out of it, instead of getting deeper into its meshes from year to year; for the very nature of our modern system of production and distribution tends in the direction of superseding those difficulties which in former times were in the way of any change in the department of production to which a worker belonged. If there was an over-production of shoes and an under-production of textiles, it was impossible for the shoemaker without work to obtain employment by weaving cloth, nor could the weaver in the reverse case do much good at shoemaking. The type-setter could not build machines, and the machinist could not have made any wages at type-setting. Then there was the difficulty of communication and transportation, which caused over-supply of workers in one place when there was a great demand for them in another.

Our progress in the arts has changed all that. The shoemaker can soon learn to mind some of the machines used in the textile factory, and the weaver can learn in a few days how one of the auxiliary machines in the shoe-works is managed. The type-setter can at once mind a milling machine after he has been shown its simple working, and the mechanic will soon learn how to work a linotype. The telegraph informs the whole world, within a few hours, that workers are required in a certain place, and steam-boat and locomotive carry the unemployed thither. When

"Over-Production"

is spoken of nowadays, something entirely different from this local or departmental dislocation is understood. We mean that strange and seemingly unaccountable phenomenon that in all fields of production—almost without exception—efficient workers bewail the growing difficulty they find in disposing of their products, or of the work creating the products. Over-production and want of employment have become so habitual a complaint that we have gradually ceased to realise the

enormity of this phenomenon. One single moment's consideration, however, suffices to restore its vivid colours, temporarily effaced by the mere force of habit.

We speak of an over-production of clothing in a world in which millions have not half as much clothing as they need. "Too many shirts? Well, that is a novelty in this intemperate earth, with its nine hundred millions of bare backs!" says Carlyle. In our cities builders complain that too many houses have been built, at a time when thousands are crowding into slums, or seeking shelter under the arches of bridges and in public parks because they can obtain nothing better. The farmer tells us that food production does not pay because the competition is too great—too much is produced, and millions have not enough to eat! And so it goes through all departments of production, whatever the name.

What can it all mean? Is there a deficiency in the means of transportation, often in the past the cause of starvation in one section of the world, while corn was being fed to the hogs in another? This obstacle diminishes from year to year, and does not apply in our case, with unsaleable goods of all kinds in the midst of the very people who need them. No, here it certainly is not distance that prevents an interchange of goods and services. Why, we have tailors wearing insufficient clothing *because* there is such an over-abundant stock on hand that they are denied employment, and thus deprived of the means wherewith to buy cloth! We have carpenters, bricklayers, stone-cutters, and other workers in the building trade who are without shelter *because* too many houses lack buyers or tenants, and building has had to be stopped for a time! Do not such every-day sights teach us that neither the distance intervening between supply and demand nor the deficient organisation of production can be to blame; otherwise how could there be an unsatisfied demand for goods in the very trades wherein the producers in vain look out for purchasers?

Supply and Demand kept apart by Money Monopoly

If productive power and purchasing power were identical, such a state of things would be impossible; but situated as we

are, purchasing power can only be obtained, as a rule, through the command of money or its representatives. As long as this money consists only of a scarce commodity in itself absolutely inadequate to perform the service expected from it, the break between productive power and purchasing power cannot be filled up. Half a century ago Jonathan Duncan recognised the real nature of the crisis. I quote from his work already mentioned :

“ We have shown that, in the natural state of things, production can never exceed consumption, and that what is called over-trading in goods really means the under-production of money. It means that more commodities are brought to market than can be distributed, not because people do not want them, but because the instrument of distribution is incommensurate. If the wharves of a maritime port were choked up with goods which another country desires to possess, as, for instance, corn at New York needed in England, but that there were an insufficiency of ships to freight the corn to London or Liverpool, it would be very illogical to say that the Americans had over-traded in the production of corn ; the case would be one of under-production of vessels, manifesting the absence of the instrument of distribution. A railway station further illustrates the argument. If there were more passengers than the train could carry, the directors, looking to their own interests, would not insist that the passengers were excessive, and complain of over-travelling, but decide that the means of conveyance were inadequate, and at once increase the number of carriages and locomotives. The question, then, amounts to this : Would there be any glut of produce if money were permitted to increase as fast as produce increased ? But we may certainly answer this question in the negative, and the answer subverts the whole of Mr. Loyd's theory. Whence arise the convulsion, pressure, and stagnation which Mr. Loyd pronounces inevitable, and as certain to recur periodically in established cycles ? Surely not from the reluctance of hungry people to consume food, or from the refusal of people in rags to wear warm and decent clothing ; yet we are told that all the evil proceeds from the fact of those very people having been too industrious ; they have over-traded, they have created too much, and the penalty is

famine and nakedness! Under this theory, the condition of the productive classes is truly pitiable; if idle, they are treated as rogues and vagabonds; if industrious, they are deprived of bread."

Without the help of credit in its different shapes, prices would have gone down very much deeper than they did. The value, the purchasing power of money, would have become much greater than it is in China to-day, or was in England in the thirteenth century, when, according to Thorold Rogers, a carpenter received 2½d. a day, and an ox could be bought for 8 shillings; for taking into consideration our increased productive power, it is probable that our money stock is relatively smaller than it was at that period. This in itself would be no misfortune, for Thorold Rogers proves that, in the latter part of the fourteenth century anyhow, wages in England were higher than in our time when measured by purchasing power. It would, however, be ruinous if debts be taken into consideration—debts continually increasing not only through the effect of compound interest, but also of a money appreciation incomparably exceeding that of the last thirty years. Our credit has prevented such extremities, but this credit, much as it has extended, cannot keep up with the increasing demand made through our increasing productive power, because it is less and less accessible to those who need it most. Here we have an element of the crisis which has been little understood, and which needs careful consideration.

Effect of Wealth Accumulations

It is notorious that never in the history of the world have such enormous accumulations of wealth in the hands of a few men been known. Mr. James Burnley lately wrote about this subject in *Chambers's Journal*, in a series of articles entitled, "Studies of Millionaires." He enumerates 100 men whose wealth aggregates to a total of about 1,200 million pounds, which gives to each an average of 12 millions, or about half a million income. Only a few of these men ever spend the whole of their income; most of them save a large part, and thereby further increase the immense amounts put by for a rainy day, not

reflecting that these very precautions hasten the approach of a cyclone against which no wealth shelter will avail.

Hoarding not the Cause

This never occurs to them, for few men comprehend how this saving can disturb in any way our process of circulation ; how it can affect the stock of money available as a basis of our credit building ; since it is well known that the habit of hoarding ready money has gone out of fashion, and that even the richest keep very little money or bullion on hand. Savings are now invested again in some way or other, and thus are given back into circulation.

Two Kinds of Circulation

However, there is a great difference between a circulation of money passing from hand to hand, from the man who received it in payment, into the market as a direct purchasing medium for goods and services, and the money which merely comes into circulation from the hands of somebody who obtained it from a capitalist in payment for land, mortgages, bonds or similar investments.

This will be more easily understood by illustrative comparison : Jones, a producer, receives money from Plutus, one of our 100 multi-millionaires, in payment of a piece of land ; while Giles, another producer, is paid cash by Plutus for some sort of merchandise. In the case of Giles, circulation is not affected ; what has been paid out by him as a producer comes back to him, for though sales may occasionally entail a loss, as a rule the producer who sells goods to a consumer makes wages or even a profit. This is well understood, so well that it has been assumed to apply to the other kind of transaction likewise. Our economists could find no difference—as far as the process of circulation is concerned—between the transaction in which the capitalist buys directly or indirectly from the producer any product of labour, and the one in which he merely pays or lends to the producer the money for something which is not a product of labour ; in our illustration : land. And yet the difference between the two transactions is ominous.

The Effect of Accumulation on Circulation

We assume that in the possession of Jones the land had been an instrument of credit. His bank allowed him an overdraft on the title-deeds. This overdraft has to be made good before the deed is returned ; and thus the money obtained from Plutus merely takes the place of the money formerly obtained from the bank by Jones. No new money has been paid into his business funds, and not one single penny has been added to his purchasing power.

"But," will be replied by our economists, "the credit given to Jones by the bank and repaid by him will now be given to someone else, who will use it to purchase goods with ; and we are practically right in saying that, as far as the process of circulation is concerned, it can make no difference whether this purchase has been made by the land-purchasing Plutus or by some other person to whom his money was passed over."

This would be true if the bank had to refuse further loans on good land until the debt of Jones was repaid ; but such is not the case—would only be the case if the bank merely lent out real money. We have seen that this is not the system of banks all the world over ; in New Zealand, for instance, the advances and loans made by our banks in 1900 attained to £17,000,000. The whole money in the country did not exceed £3,000,000 ; but the institutions, including the savings-banks, owed for deposits and bank-notes nearly £22,000,000. They had merely lent the money brought in by one set of people to another set. They acted as a kind of book-keepers of a sort amidst the business people of the country, who practically lent each other money, or rather the hope of getting money in case it was wanted ; for very little money passed or even existed in the country. For this work of book-keeping and for the guarantee undertaken by them, the banks have enriched themselves by many millions since this colony was founded, of which more in the chapter on "Banking." The mere fact of having no money does not in the least deter our banks from giving credits, from allowing the debtors to draw cheques ; because they know that the cheques will come in as deposits on the other side, and generally real money will neither be

demand, nor could it be paid if demanded in six cases out of seven.

The result, therefore, of the transactions between Plutus and Jones will be that a rich man, who does not overdraw his account at the bank, bought land ; on the strength of which a poor man drew a certain amount of cheques, which he now repays with the cheque obtained for his land from the capitalist who bought this land. Thus the currency originally given to the capitalist by his rent or interest debtors does not return into circulation, as the transaction has not enabled the land seller to increase his right of cheque drawing. Jones merely repaid his debt to the bank, and there the matter ends.

The debtors of a rich man pay him their interest or their rent. The money has been paid to them by other workers, who expect to find employment through the continued circulation of this money ; but they are disappointed. The money has left the market, and it is kept out of the market. It has done nothing but change the basis of a given worker's cheque operations. Instead of drawing his cheques on the basis of an overdraft secured upon a piece of land, Jones now draws them on account of the cheque obtained from Plutus. If land, bonds, or other securities of this kind, on which the banks allow overdrafts, were unlimited in amount, this would not matter ; for someone else would obtain a credit on such security from the banks, and the cheques drawn on this new account would take the place of the repaid overdraft in circulation. But the quantity of such securities is limited ; and, while credit is not refused to those who can supply them, from year to year more of these securities come into possession of a class of people too rich to require credit, and who do not use them as a basis of credit money, of currency circulation, as the parties who sold them had done.

In this way the accumulations of the rich disturb the equilibrium between supply and demand ; in this way the money obtained by them does not return into circulation.

The subject is too important and too new to meet full understanding at once, and yet without clear comprehension at this point, a vital part of the problem must remain an unsolved riddle. I therefore beg my readers not to skip, but, on the contrary, to thoroughly study, again and again, this momentous relation between wealth distribution and the supply of the

circulating medium. To give all possible help on my part, I shall now sum up the subject by condensing its principal features into as few sentences as possible.

M is the effective legal tender money stock of the world, practically represented by 800 million pounds sterling of gold coins and bullion. Part of this stock circulates, part of it is hoarded by parties who do not issue any credit money for it, and the balance lies dormant in the vaults and safes of the banks and the business world to serve as the basis of a thirty-fold credit money circulation: C (money promises or representatives). To simplify, we shall leave the circulating money out of account as too insignificant when compared with the total of the circulation, and also the hoards not used as a basis of credit money; for this kind of money has practically disappeared from the world for the time, and we shall consider 30 C as representing the whole circulation.

Thirty C is not enough to supply a means of exchange sufficient to enable the expansion of trade: T, to keep step with that of productive power: P, so as to preserve its level with buying or purchasing power: B. Unless $B = P$, commercial depressions and want of employment are unavoidable. Through improved machinery and other causes P doubles to 2 P, but B can only advance to 2 B if T can advance to 2 T. This is only feasible if 30 C can advance to 60 C.¹ (The increase of M itself through mining—after abrasion, use in the arts and hoards not serving as the base of C are deducted—is too insignificant when compared with the enormous increase of P and T to need consideration.) Such an advance is dangerous, even where the best of securities are offered, as long as M alone is legal tender; for it signifies that 60 instead of 30 promises of money are to rest on one single M as their basis; but our capitalists are willing to run this danger where what they consider good security is supplied. These securities are prac-

¹ Of course, I have no pretension of asserting that this is mathematically the case, for a great deal depends on the rapidity of the circulation. The same amount of currency can supply a much more extensive trade where telegraphs and railroads exist than where more primitive modes of communication obtain. But assuming an existing intensity of the circulating process as remaining unchanged for the time, my formula can safely be adopted,

tically only of two kinds: 1, land or monopolies connected with it; and 2, the bonds of governments or public bodies. The latter may safely be left out of consideration where such a large amount of new securities is required as the increase of 30 C to 60 C implies, though every succeeding year sees an average issue of over £100,000,000 new bonds. We must also take into account that a very large part of these bonds are in, or gradually come into the possession of the rich, who do not use them as collaterals for credits. Nor are they needed; for—though the surface of the land does not increase, land values—L—grow with P. But, as shown in the case of Jones and Plutus, L is continually passing from the possession of those who use it as a security for the issue of C into that of men who require no credit. Later on, we shall investigate the causes which tend to accelerate this transfer, and so increase the rapidity with which the gulf widens between the demand of larger quantities of C and the possibility of supplying the security, the collaterals, without which C is not forthcoming. The form which C takes is immaterial. In Germany the banks give their credits in the shape of their acceptances on bills of exchange, drawn upon them by the debtor, usually at three months' date, which then are discounted or circulate as a means of payment, and thus take the place of the overdrawn cheque, customary with us.

Temporary Revivals of Trade Explained

As C thus lags behind the demand, B, T, and P have to suffer, and the crisis is inevitable.

Once the foregoing causes of the growing discrepancy between productive and purchasing power are well understood, the occurrence of crises will consequently no more excite surprise; the difficulty will only be to understand how we ever can have comparatively good times as long as the described fundamental cause is at work. Even this, however, can easily be explained. We must not forget that the real nature of the evil is almost absolutely unknown. A few students of economic science may have an inkling of the truth; but the masses, including our captains of industry and commerce, have come to look at commercial and financial crises somewhat in the light of meteorological phenomena, certain to occur at more or less regular intervals, forgotten as

soon as they are over—just as a fine sunshine will make us turn out light-heartedly in thinner garments, as if rains were done away with for ever, quite unmindful of the fact that only yesterday we were caught in a shower which wetted us all through. In the same way, the least sign of returning prosperity finds us all eager to make up for the enforced abstinence of the depression we have just endured, and this very infectious hopefulness must naturally have the effect of stimulating business. It matters little what may have produced the first signs of reviving trade. It may be a war, with its destruction of labour's products, and its requirements of life and property annihilating machinery, its withdrawal from the labour market of thousands of strong men, whose consumption temporarily increases, and whose absence from competition enables those who remain to obtain full and paying employment, and thus to also augment their consumption. Or there may have been expensive changes in armaments such as followed that onslaught of the *Merrimac* on the wooden ships of the Union fleet which introduced an era of armoured ships; or experiences like the Prussian victories in the sixties which forced all nations to exchange the obsolete muzzle loader for our modern guns. Or some great progress in the technic field, such as the last two decades experienced in electrotechnics, may have called forth a large demand for products of labour. However the temporary revival came about, its effects are over-estimated and its transitoriness is ignored. At once hope rises on all sides, and this effect reacts upon the cause. The retailer gives larger orders than the increased demand warrants, the merchant lays in a larger stock to be better prepared to meet the requirements of the trade, and the factories working at full pressure increase their facilities by adding new buildings and more machinery. The so-induced demand for more workers raises wages, consumption is correspondingly increased, the demand becomes greater, and thus is seemingly justified the assumption that at last the good times have really come.

The Reaction

But the same forces have been at work all the time; have been, in fact, intensified by the revival. The increased demand

for goods has further stimulated the inventive spirit; enterprising manufacturers have introduced improved machinery which enables them to produce more with the same number of hands. For a time the banks have been a little easier in allowing overdrafts, and capitalists who otherwise would have invested only in the best securities are infected by the general hopefulness, and invest money in business. They become silent partners, buy stock in newly founded limited companies, or lend money at interest. Only the small fry, however, are caught in that way; the men of Mr. Burnley's list are too old hands at the business not to know that, though temporary profits might thus be obtained, in the long run nothing is gained—that, in fact, the final losses overbalance temporary profits. Their experience has shown them that large fortunes can only be preserved and increased by investments in monopolies of some sort, and whether such monopolies consist in the possession of farms, building sites, mines, quarries, forests, oil wells, telegraph lines, canals or railroads, they are all summed up under the heading of land-ownership or land control, if we leave patents out of sight as of only short duration. They therefore let the little ones buy the stock of manufacturing concerns, while they content themselves with owning the land on which cotton and wool are produced, the coal, iron, copper, tin mines, and other sources of the raw materials needed by the factories, certain that in time all will come to their mill, as the oil refineries had to submit to the raw oil monopoly. All they will do beyond this to help the new companies is to give them credits on the strength of their land, certain that sooner or later the whole property will thus fall into their hands without any further outlay. Anyhow, the old process of a gradual passing of land values out of the possession of the masses who have used them as a basis of credit money, into the hands of men who do not need any credit, is bound to continue all the time, and finally to produce its effect on the currency. Its restriction through these permanent causes continues, while the inflation through the transient causes naturally can only be of a temporary nature; for the exceptional demand caused by the war and other causes ceases sooner or later, and the increased taxation which the war entailed further reduces the purchasing power of the masses, while the

influx of the dismissed soldiers, now competing in the wage market, depresses wages and thus further reduces the demand of consumers. Add to this the increased output from all those new factories built during the revival, and it will easily be seen how it happens that first the shopkeepers find themselves loaded with more stock than they can expect to sell for some time in consequence of the decreased demand, and even forced to ask prolongations of bills from the merchants, who, being met by the double trouble of decreasing orders and slower payments, get into difficulties which soon reach the manufacturer and farmer. Credits in the bank are reduced, and the interest rate paid by the traders rises just when both the demand for goods diminishes, and when the money for sales comes in more slowly.¹

Workers are dismissed, or others put at half time, which again decreases consumption, and thus further strengthens the effects of the depression.

The Crisis

The depression soon degenerates into a crisis, and when a few large failures have frightened the banks into greater caution, and thus into precipitating fresh failures, the crisis becomes a panic, and the panic intensifies until the strongest do not know whether they will be able to weather the storm. Business now offers the phenomenon of a river which has been stopped in its course by some obstacle in its bed. It rises and rises until the moment arrives when the stowed waters burst their bounds with terrific effect. Thus the temporary arrests of the chronic crisis stream, called revivals of business, have no other effect but to substitute the crash for the gradual descent. To use another metaphor, these business revivals are only the advancing waves of a receding tide. The careless observer, seeing one particular wave come inshore farther than its immediate predecessors, may conclude that the tide is rising, when, in

¹ "On the first intimation of a scarcity (of money) the rate rises, and they who must have money to pay the current expenses of large establishments, or to meet their outstanding obligations, are at the mercy of the lender. The captains of industry, and, through them, their labourers, are no longer the masters but the servants of capital."—Robert Ellis Thompson, "Political Economy" (p. 152).

reality, it is rapidly running out. So those who look superficially on business revivals are too apt to ignore the fact that the tide is still running out in spite of the few advancing waves which impress them. That another catastrophe is rapidly approaching while I am writing this in June 1901, may not yet be visible to unpractised eyes, nor do I claim extraordinary powers of perception when I predict a collapse of trade in the near future. As long as the heavy expenses in South Africa continue, the exceptional demand may, for a time, stave off this collapse, but it is sure to come soon after the peace. In fact, since a century, all great wars have been followed by trade depressions within a year or two, rarely three, after the conclusion of peace. This appears quite natural to any one who has studied the causes of the comparatively good times we have just enjoyed, and those of the chronic crisis of which these good times can only be a short interruption. Not only must such interruptions become shorter and shorter all the time, but even what we style a revival would have been looked at as a moderate crisis half a century ago.

Want of Employment and its Effects

At the height of our booms even a growing difficulty of finding paying employment in any branch of occupation stares us in the face, and the preoccupation of parents in looking out for an opening in life for their children is one of our saddest spectacles. Those who have the bestowal of Government offices know something of this; for it is quite natural that the increasing difficulty of finding work in the channels of business, of making a decent living by farming, manufacturing, or selling goods, by teaching, healing, pleading, etc., forces men and women to supplicate for any kind of Government work. The dangers arising from this are best exemplified in the United States, where office-hunting has corrupted the whole of the political machinery. No remedy will avail against this and other growing evils, unless we can get at the foundations of our present money system and our existing land laws.

Effect of the new Currency

Now we have arrived at the point where the full effects of a scientific paper currency can be understood. So far, we could

only see how such a currency could put a stop to the sudden collapses we are so used to, by means of its price-maintaining power, but we could not discern how it could prevent the chronic crisis: the slowly but surely widening gulf between productive and purchasing power. We have realised that credit, our real means of exchange, the basis of circulation, and consequently the condition without which production becomes impossible, is founded on a limited amount of securities gradually passing into the possession of the creditor class from that of the debtor class: the producers. Thus the production, and consequently the purchasing power of the latter, is more and more crippled. Therefore, unless the new currency can be made accessible—not only to the owners of land values and bonds, but to the producers at large—we can never expect it to prove a real remedy in our chronic disease of under-consumption, *alias* over-production.

Merchandise becomes a Security

This accessibility of the proposed currency to the producers is reached through bringing into the foreground a new class of securities, which, under present conditions, play a relatively unimportant part in finance: Merchandise, the product of labour. What at present causes its partial exclusion from the rank of credit collaterals, and restricts the security value of certain classes of merchandise which are accepted as collaterals, is the risk of a decrease in their value. Part of this risk, caused through the perishability of all products of human labour, can, to a certain extent, be eliminated by insurance and safe storage. This risk is comparatively small with most products which do not partake of the nature of food-stuffs. The risk due to price variations, however, is comparatively great, as our daily market quotations prove, and especially the results of our auction sales. It is well known that the latter, except for certain raw materials of very extended use, often bring only a fraction of cost price; and as auctions must always serve as the simplest means for a creditor to realise on his security, it is not astonishing if, in present circumstances, capitalists are very chary of giving credits on merchandise. This must entirely change in the case of a money based on the prices of merchandise, especially when the prices realised at auctions are taken into account proportion-

ately to their share in the general turnover. The more the reform makes advances on merchandise the rule instead of the exception, the more will this share grow in importance. The very result of the reform on prices realised under these conditions will tend to give to the auction system the pre-eminence in the methods of distribution. Manufacturers and farmers, producers of all kinds, will resort to this simple method of disposing of their produce at wholesale, in preference to any other, as soon as a certain reliance can be placed on the prices obtained. And, on the other hand, this reliance will be strengthened in the same measure in which auctions predominate; for as auctions predominate, their prices will gradually become the almost exclusive gauge for the money-issuing department of the Government; and the effect of the money issue, in its turn, will steady the auction sale prices.

Unlimited Basis of Credit

The new basis of credit thus created in most departments of production is of such an elastic nature that its monopolisation becomes an absolute impossibility. Its limits are co-equal to those of production, which in our time are practically limited only by the demands of consumption. Merely the want of customers limits our present production, which does not begin to approach the extent of our latent productive power. If the goods could be sold, our production, even without new inventions, would soon double, treble, quadruple its present total; and new labour-saving inventions will be forthcoming as soon as the demand for the product justifies their use. It seems certain that within a very short period a ten-fold increase of production could be reached, principally because the waste of power inherent in the present system would disappear with the demand for more goods. I shall treat this part of the subject in the chapter on "Socialism." Here I only want to add that the certainty of obtaining a market at regular prices will to such a degree eliminate the risks of business that practically the product will not even be demanded as a basis of security. The productive power—*i.e.*, personal security—will largely take the place of the lien or pawn, as it already does with the German Raiffeisen banks, whose losses are absolutely insignificant. (See under "Banking," Chapter VI.)

Over-production in reality Under-consumption

I have shown how our so-called over-production is in reality only an under-consumption. The insufficient purchasing power of the workers narrows the market for their product, and, of course, for their labour, anxious to bring forth this product. This narrowing of their market must, on the other side, reduce their purchasing power for the product of their labour; and thus cause and effect react on each other in the disastrous way with which our eyes are, unfortunately, so familiar.

It is mostly due to socialist writers that this real cause of a restricted production has been more and more recognised, and that the spell has been destroyed which was thrown over this problem by the false theories of celebrated economists of the Adam Smith, Malthus, and Stuart Mill type; an artificial veil which more than anything else has hindered an earlier penetration of the seeming mystery.

Wage Fund Fallacy

The question is too important not to justify my entering a little closer into this part of the subject. In Chapter II. of Book IV. of his "Inquiry into the Nature and Causes of the Wealth of Nations," Adam Smith resumes in the following sentences what he explained more elaborately in Chapter II. of Book II. :

"The general industry of the society can never exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society, must bear a certain proportion to the whole capital of that society and can never exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might otherwise not have gone, and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord."

This wage fund idea is also the foundation of John Stuart Mill's "Principles of Political Economy"; it is likewise at the bottom of Ricardo's fallacies, and of hundreds who followed these beacon lights into the eddies of a disastrous shipwreck.

I use these last words with full deliberation, as an expression of my firm opinion that these teachings have helped more than any other cause to retard our advance by obscuring the real problem, and thus preventing its earlier solution. I hope that before I have done with the present chapter the reader will share my conviction.

As there is plenty of land, if freed from monopoly, to supply food and raw materials; and as, besides, the unemployed workers are fed anyhow, as paupers, we can only take Smith's Capital in the sense of tools, if we reserve money and credit for special consideration.

Absence of Tools not responsible for Want of Employment

To begin with, I think it cannot be proved that the employment of workers ever depended on the amount of tools possessed by the society of which they formed a part. There is not a single case found in the history of nations, of men being unemployed merely because they could not procure tools of production; though there certainly are plenty of cases where there was too much work through the imperfection of such tools. If the old Egyptians had had our modern machinery, a fraction only of the hundreds of thousands employed in constructing those gigantic stone monuments which so eloquently speak of their waste of human labour would have been employed on this work, or more work of the same kind would have been produced. It is not the lack of perfect tools, but the very efficiency of our modern machinery, which is directly responsible for the want of employment our workers complain of, whatever the indirect cause may prove to be.

Superior Tools need not render inferior Ones worthless

But it may be replied that wherever more perfect tools are generally used, inferior tools practically become worthless, because competition by means of their use has become

impossible; and that, in this sense, Smith and his followers were in the right. My answer is that :

1. Men provided with inferior tools have mutually supplied each other, and are supplying each other with the necessities of life, without being in the least interfered with by others who use better implements. Even in some of our most civilised European countries communities are met with, especially in mountain districts not yet opened by railroads, where the people live comparatively well, and where scarcity of employment is as good as unknown, though their tools and processes of production belong to a period lying at least a century behind us. It is true that when our modern implements intrude into their mountain solitudes the just named scourge of modern times begins to show its face. During one of my tramps in the Bavarian mountain districts I entered into conversation with a peasant. We talked of the railroad which was going to be built through the section, and which had just reached its confines. "Formerly the peasant carried the gentleman, now the gentleman carries the peasant," was his criticism, which, in a few words, contains a deep meaning. He wanted to tell me that before the railway comes the peasant drives the travellers, and thus makes money, enabling him to purchase things he wants. Now the capitalists of the city carry the peasant on their railway; and instead of making money through the use of his carriage and horses, the peasant himself has to buy a railroad ticket if he wants to travel, as he had to sell his conveyances for want of customers. His income has gone, his expenses have increased. All this is true, but if these people are fully employed and make a good living as long as they are only using their primitive tools, and if, as soon as modern improvements arrive, the same troubles and difficulties as to employment arise which obtain in more civilised parts, this can certainly not be ascribed to the want of capital; rather to an intrusion of too much capital.

2. In fact, a

Want of Tool Capital never needed to exist

as long as our world has been inhabited by man. When the pierced bone was used as a needle, a curved stick as a plough,

a sling as an implement of the chase and as a means of defence, as many pierced bones, crooked sticks and slings were produced as the workers wanted. And in our time, when the sewing-machine has taken the place of the bone needle, the steam plough that of the stick, and the Mauser or Martini rifle, the Crupp gun and Maxim that of the sling—sewing-machine makers, instead of finding the least difficulty in supplying any amount of machines required, are only too anxious to obtain more orders; and were a machine needed for every man, woman, and child in the universe, it could be forthcoming in a comparatively short time. Nor have I ever heard that steam ploughs and other implements could not be supplied in any quantity needed; unless there was a sudden unexpected pressure, soon relieved by increased facilities for production. The same holds good in regard to arms and any other thing produced by human hands. There is not a single article against which the cry of "Over-production" has not been repeatedly raised.

Over-production shows an Excess of Capital

This complaint certainly does not show a deficiency in machinery, but that the supply of goods exceeds the demand, and the demand falls because the workers do not receive wages corresponding to the increased efficiency of the machines. Our means of production, defective as they are to a certain extent—principally because we cannot let them have full play for fear of the consequences—supply at least ten times as much per day's work as the more primitive tools of two centuries ago; but it is clear that with these facilities there can only be work for all if consumption also increases ten-fold. This it can only do if either the wages of the workers have their purchasing power ten-fold increased, or—if this is not done—that the comparatively few people to whom the bulk of the purchasing power belongs consume the produce in their turn. As wages have by no means increased to anything like the proportion mentioned, and as the number of people who obtain the lion's share of the product is by far too insignificant to enable them to consume the surplus, there can only be one result: the reduction of the number of

hands employed in production. If the waste in distribution, through the unnecessarily large number of middlemen, the waste through militarism and its consequences, destructive wars, the waste through devil Alcohol, through circumlocution offices, through strikes and other restrictions in production brought about by labour unions, through flunkeyism, etc., were not there to tap off part of the superfluous blood, our social body would long ago have been subjected to a stroke of apoplexy.

Want of employment, as we know it, is not the product of too little capital (instruments of production), but of too much—of capital too abundant for our existing distribution of wealth and it is not more of this wealth or of wealth-creating power we want just now, but a more equal distribution.

The new Money, by taking out of the Way the worst Obstacle

in this direction, will increase consumption accordingly. The increasing consumption must necessarily give a freer rein to our productive power, and call forth from latency into actual existence immense quantities of wealth. This wealth, in its turn, by serving as a security for a money credit, supplies its producers with the means of changing wealth into purchasing power—into money. There can be no danger of producing too much wealth under such conditions : where demand keeps pace with supply, and where accordingly prices do not fall. A fall would, however, result from a non-consumption of part of the newly created wealth—consumption in the sense of use, for, to keep the economic machinery moving, it matters not whether the product of labour is consumed in the form of bread and meat or of railroad locomotives, canals, and school-houses. Such an under-consumption now results from the use made by our rich of their incomes. By not spending, but merely exchanging them for the purchase of credit instruments which they do not put to the same use as the former owners—to procure money representatives in the way just seen—they restrict the market and press down prices. But under the new system, when prices fall new money appears in the market,

eagerly demanded by those who handed their own money to their rich creditors. The debtor class will be able to obtain this new money on reasonable terms, because the products of their labour then supply sufficient security through the removal of the danger now presented by a fall in prices, and thus the withdrawal of money or money representatives by the creditor class will cease to do any harm. The effect which the changed conditions have on the interest rate, how they will reduce the interest tribute paid by the producers to the capitalists, and thus bring about a better distribution of wealth, will be shown later on. The new relation this will bring about between labour and its employers, and the effect it will have on the purchasing power of the masses, will then also be treated. The proof will then be furnished that the new money is bound to immensely increase production, for which a ready inland market is found through an equally increasing consumption. But even without taking into consideration the effect of the new currency on the interest rate, it will be possible to realise our independence of foreign markets through the possibility of an indefinitely extensible home consumption, and thus to face that great bugbear in the way of paper money, the international market, to treat of the effect a scientific paper currency produces on international trade. This we shall now discuss.

(b) International Intercourse

Part played by Gold

Many who concede the superiority of a good paper money over gold coins cannot see how gold can be dispensed with in international trade. It seems to be of the greatest importance to possess one special merchandise which, through the fact that it can be coined into money at certain rates in our principal commercial countries, is at once saleable at a fixed price everywhere. Wherever free coinage of gold exists—which, as we have seen, means that anybody can bring gold to the mint and demand its coinage at certain rates — gold is practically money, even in the bullion state; and all those countries where this is the case preserve an almost invariable exchange rate in their mutual relations. The variation of such foreign exchanges

can, as a rule, never exceed the cost of sending gold from one to another ; of course, including insurance and the interest loss.¹

The question will therefore have to be discussed how a paper currency whose value in the home market² remains unchanged will compare with gold as a means of international intercourse.

Gold unnecessary internationally if Commodities are paid for with Commodities

This task would be very much simplified if I could acknowledge the principle that in the long run goods are always paid for with goods, a principle which forms the foundation of the free trade school, for in this case I should simply be able to restrict the part played by gold in international exchanges to that of a temporary regulation of accounts, just as useless internationally as it is nationally. There, as here, clearing-houses could keep accounts carrying over temporary balances for a time, certain that very soon shipments of goods or rendering of services (freighting, for instance) would finally settle the accounts. However, even my disbelief in the great free trade axiom would not make me accept the services gold performs in international trade as a reason for abstaining from the introduction of a

¹ I repeat here what I said in the last chapter : that without free coinage gold coins pass from money class 1 to class 2 ; because there are wisacres who ascribe all our currency troubles to the abandonment of the coining monopoly by the crown under Charles II., in 1666, and to subsequent free coinage. Coinage monopoly can only keep English gold coins in class 1 if the State buys all the gold offered in the market at the fixed rate, *i.e.*, £3 17s. 9d. per ounce, which produces absolutely the same effect as free coinage. If class 1 is to be abandoned, it is certainly better to enter at once class 3, which practically, by taking a cheaper money material, presents all the advantages of class 2 without its drawbacks. Unless coins are kept at parity with a fixed quantity of gold, the international exchange rate can no more be kept near par, and thus the only advantage of a gold currency is lost.

² "Home" market in the colonies is often used for the English market, while they say "local" market when they mean their own market. In the United States they mostly use the expression "domestic." In this work "home," "local," and "domestic" market are used indiscriminately for the same idea, while "English" market is said where a colonial would speak of "home" market.

scientific paper currency. We poor human beings often have to decide for the lesser evil, and if gold harms us more in the home trade than it benefits us in international intercourse, its doom should be sealed.

Relative Unimportance of International Trade

What is international trade even now when compared with national trade? It will play a ridiculously insignificant part when the full effects of scientific paper currency are produced in the home trade, effects which, as we have seen and shall yet see more clearly later on, must consist in an immense increase of production and consumption. Look at the state of things our business world actually presents to our eyes! It reminds me of a party sitting round a table on which a tureen is placed containing not half enough soup for all the guests. There they sit, trying with all their power to ladle some of the soup into their own plates, and being in each other's way, they spill most of the scanty victual, so that not even that modicum is obtained which a fair division would have given. It even seems that the mere feat of spilling some soup which a neighbour just managed to secure gives them satisfaction akin to that of having filled their own plate. And all this time there is a full tureen of soup on a little table behind each guest, more than sufficient to satisfy his appetite; but though he occasionally sups a spoonful or two from his own tureen, as a rule he wholly neglects this personal supply, and concentrates his attention on the tureen of the common table. Crazy, these folks, are they not? Fit for a lunatic asylum? Certainly, but are we not doing exactly the same thing in regard to our two trade tureens: the home trade and the international one? There is no country in the world whose citizens would not be better customers for its products than any foreign or colonial market whatever, if their purchasing power were kept at the level of their productive power; and yet, instead of tenderly nursing this purchasing power by just laws, we use up our whole strength in the attempt to conquer foreign markets, be it even by means of costly wars, as in China at this very moment. If the powers engaged in the unjust work of forcing a nation—which wants to be left alone—to fling wide open its doors to outsiders would employ the means

thus wasted and the human activity thus worse than thrown away, to organise production and distribution in their own countries on a better basis, the turnover thereby obtained would far exceed any sales ever expected in the Chinese markets. Wars and waste by custom-houses and frontier spying are the methods by which they spill the contents of the few spoonfuls they succeed in ladling out of the foreign tureen, which at the best contains not one-tenth enough food for them all, while they would only have to turn round towards their own tureen, labelled "home trade," to eat with comfort and satisfaction as much as they choose. One single shilling a working day more purchasing power given to 40 million Britishers would mean an additional home consumption of 600 million pounds sterling a-year, or almost twice as much as the total amount of British exports.

I cannot refrain from quoting Miss Mara De Bernardi, the talented daughter of G. B. De Bernardi, the founder of the American Labour Exchanges, on the folly of looking for foreign markets while the demands of our home consumers are unsatisfied :

"Tramping the highways and byways of the nations, shelterless, cold, shivering to-day under the blasts of a premature winter, doomed to bleak and comfortless nights beside the grudging fire of some discarded railroad tie, or, at best, to the shelter of some farmer's friendly surplus of hay, from Maine to California, and from Washington to the land of southern flowers, wanders the countless market for America's wood and coal, and lumber and brick and stone—the homeless, houseless waif of over-production. A humbled petitioner at the kitchen doors of the generous housewives of the land, with manhood crushed and dying beneath the awful Juggernaut of beggary, stands the numberless market for America's wheat and corn and boundless stores of food—the hunger-haunted victims of over-production. In their wretched rags, their cold, pinched faces, blue and strained, the tattered children of the land shiveringly proffer their claims to Dixie's cotton yield—the ill-clad victims of the nation's surplus stores. And they weary the pavements of our streets with their endless, aimless passing to and fro, and harass the very peace of the nation with their ceaseless im-

portunities for the making and the taking of the surplus of the world. And sometimes, when the struggle for human existence grows too great, some reckless, heartsick victim of too much unused clothes and food and shelter in the world drifts off to meet the everlasting bounty and abundance of the hereafter, down some icy river, or on some outgoing ocean tide—a market lost to the over-production of the world by the crime of that world's own folly and neglect; a market which neither the sacrifice of human liberty nor the shedding of human blood was required to conserve, but which only the kindness and simple justice of a common humanity would have held inalienable; a market which could proffer not idle, useless, cruel gold, but honest toil for honest toil; a market which relieves alike the victim of over-production and the victim of over-work. A market for our surplus in China? It is praying for recognition, and dying of neglect at our nation's very doors."

Commodities often are not paid for with Commodities

Unfortunately, things are not so simple as the scholar at his desk decrees, and the facts of practical life show us that goods are not paid for with goods even in the long run. There is such a thing as *Debt* in this world, and we have seen that its payment usually has to be made in money which in our present international financial relations means Gold. Now, of course, it may be said that gold is as much a merchandise as any other, and payment in gold would not at all invalidate the principle that commodities are always paid for with commodities. But gold is as little obtainable for international debts as for national ones, and its representatives must take the place of the real article. That this is actually the case is known by all who derive their knowledge from the facts of every-day life and not from dusty volumes of mere theorists. Of course, the money representatives accepted internationally do not include some of those mostly used internally, such as bank-notes and cheques, for these are of no use where they do not circulate as currency.

Importations paid with Tribute Claims

Only interest-bearing titles are accepted, such as bills of exchange, mortgages, and principally Government and other public bonds. Besides these methods of paying for goods where goods are not accepted in return, titles of land, houses, mines, factories, and other industrial enterprises in some form or other—usually stock of limited companies—must serve to balance the accounts. The argument has been advanced that debt has to be paid some day, with the inference that this only means a postponement of the final exportation of goods to pay for them, but this is not necessarily the case; the creditors and investors may be, and mostly are, quite satisfied to draw their yearly interest or dividends, leaving the debt itself standing. Even the interest may not be demanded for a time, but may be capitalised, and thus, through the force of compounding, further increase the debt. That this is actually the case is proved by the fact that England is said to be the world's creditor to the amount of over 2,500 million pounds sterling, if we include those investments which cannot be directly called a loan, but practically are so to all ends and purposes. Whether an English capitalist holds a mortgage on American or colonial lands, the interest on which has to be remitted to him, or whether he is the owner of the land and receives his remittance under the title of rent, makes practically no difference, just as little as if his income is derived from the interest coupons of American and colonial bonds, or from dividends of coal mines. In either case he forces the American and colonial workers to pay him a tribute in money or its equivalent, as the result of some title held by him. When we describe the process by saying: The English exporter of goods to the United States or colonies to a certain extent took *tribute claims* instead of goods in payment, we have best generalised the nature of the process. If goods were always paid for with goods, where would the tribute claims come from? The fact that we usually express the matter differently, that we speak of English capital invested in the United States, does not in the least alter the real process. The capital which England supplied was not money, for gold as a rule came

from America and the colonies to England, and not *vice versa*. The international gold export and import balances have generally shown a decided preponderance of American and colonial exports to England over English exports to America and the colonies. What England really sent was merchandise, for which less merchandise came in return. And if the trans-marine countries now export more goods to England than they obtain from that country, it may not at all mean that at last they are repaying the surplus they formerly received by the excess of their shipments, but simply that these countries pay with goods the whole or part of their interest debt to England, while the debt remains as it stood, or, as is really the case—as far as the colonies are concerned—the total of tribute claims has increased during the course of years through compound interest, or the unearned increment on land and other natural resources connected with land ; in other words, on monopoly values.

Favourable Balances always best

American free-traders, like Louis Post, in the *Public*, may be quite correct in asserting that the Union does not get anything in return for its excess of exports over imports, and thus does not obtain any increase of national wealth by the favourable balance of trade of which its protectionists are so proud ; and yet his opinions are entirely erroneous if they tend to the conclusion that his country reaps no advantage from its favourable balance. It reaps as much advantage as any debtor who pays the interest on his debt or part of it, instead of allowing it to accumulate. If the Union's balance of trade should have continued to be a passive one, this would simply have resulted in a further increase of the tribute she owes to England and other countries ; and if England had an active balance of trade instead of a passive one, it would only mean that instead of spending part or the whole of its tribute dues—now said to exceed 100 million pounds a year—it would act like a miser who grows richer all the time through the non-consumption of his wealth.

Error of Adam Smith

By correcting a gross error so prevalent in the free trade press, I do not thereby declare against the principle of free trade and become an advocate of protective tariffs. I shall have a few words to say about this question farther on ; at this juncture I simply assert that a favourable or active balance of trade is better than an unfavourable or passive one. Though this seems a mere truism, it has been hotly disputed, even by such a man as Adam Smith. The great Scotchman had the misfortune of many a general, who, in the ardour of pursuit, ventures too far and is in turn defeated. In fighting the errors of mercantilism he also attacked its truths, and thus himself fell into a much greater error than the one he fought. He justly denied that wealth consists only in money or in gold and silver; he denied that the precious metals represent the most precious part of wealth. He saw clearly that we might dispense with gold and silver more easily than with iron or copper; that we might even live without the two precious metals; while we cannot exist without food, clothing and shelter. But here his perception of the real nature of the problem ended. In Book IV., Chapter I., he says: "Though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money therefore necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again; whereas he who sells always means to buy again. The one may frequently have done the whole, but the other can never have done more than one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it."

Even a learned professor cannot be absolutely blind to the facts of every-day life, and I hardly believe that Smith could have made such statements if he had lived a hundred years later. In the twentieth century it is easy even for a university professor to point out the absolute incompatibility

of such theories with the facts of real life. An immense increase of productive power has been the signature of the hundred and twenty-five years that have passed since Adam Smith wrote these sentences in his mother's house at Kirkcaldy, in the quiet study of the scholar, carefully shut off from any intercourse with the outside world ; and our folly in making a scarce yellow metal our exclusive legal tender money has brought about a wild chase of goods after money, while the kind of investments favoured by our rich money owners clearly shows that money can do other work besides buying goods. To comprehend this, even if he had lived in our time, would have presented some difficulty to him. The author of the "Theory of Moral Sentiments" would indeed have found it hard to understand the motives which can actuate our Rothschilds, Rockefellers Westminsters, etc., in their accumulations of millions. They can never expect to use the money for the purchase of goods, for the greatest imaginable extravagance cannot conceive of such an expenditure. They consume only a fraction of their income, and use the balance to add to their wealth ; not in the form of tangible products of labour, which would be equivalent to consumption as far as the goods-purchasing use of the money goes, but of tribute claims in the shape of land titles, mortgages, bonds, etc.—mere strings to which the world's money is attached, to be pulled in at the will of the string-holders. But whatever the motives may be, the fact remains that immense amounts of money or money claims are thus used for "other purposes besides purchasing goods," amounts exceeding by far the whole money stock of the world. And the well-known consequences of this fact are that everywhere goods of all kinds go a-begging in vain for money, while money haughtily refuses to buy goods.

Fatal Influence of Adam Smith

My poor fellow-citizens, you hard-working farmers, manufacturers, traders, professional men, I know you are too busy ever to peep into books like that here spoken of ; but do not make light of this matter, for this "Wealth of Nations" has done, and is doing, you more harm than you can possibly imagine. It has dominated economic thought for many decades, and its influence

on our economists—and, through them, on our statesmen—must not be under-estimated even at this date; though the halo which once surrounded it has somewhat paled in the light of modern facts. It even now forms the stock-in-trade of those verbose scribblers who try to impose by great names and well-sounding phrases where facts and logic refuse their support when they try to prove to you that black is white and white black. What a consoling theory for you to learn that

**“Money necessarily runs after Goods, but
Goods do not always necessarily run after
Money.”**

when the bank calls for the immediate payment of your overdraft! Try what the manager will say when you refer him to this gospel of Smith and his disciples that “money necessarily runs after goods,” and that you will be sure to pay him as soon as your share of this money overtakes your share of goods! And even if he should consent to wait because you still own some land which you can pawn, interest has a very unpleasant habit of cumulating, so that the day will come when the original amount which you borrowed has doubled, and when you have to part with the last piece of land you had secured as a place for a home. What does it matter? Console yourself; some day or other money necessarily runs after goods! Meanwhile, you see the money owner quietly lend this money out on best security at usury rates and “join house to house, lay field to field, till there be no place, that they may be placed alone in the midst of the earth.” “Woe to them,” says Isaiah; but woe unto you, too, the victims of this system which continually increases a purchasing power that is not at all exercised in the way decreed by the philosopher from his study chair; not even indirectly, for it is merely used to further cripple the usurer’s victims, to force them to bring most of the money they would like to buy goods with to the usurer, who again employs this money in the same nefarious fashion as before. Certainly the mercantilists were wrong when they ascribed to gold and silver special qualities which they do not possess, but they were absolutely in the right when they found a great difference between money, *i.e.*, those kinds of merchandise to which the

money monopoly had been given, and other commodities. Their experience of every-day life taught them that a man who sells less goods than he buys, and thus spends money, is not so thrifty as the man who sells more than he buys, and consequently saves money. Granted that the former may seem better off for the time if his stock of goods is worth more than the money paid for them, but goods are subject to all kinds of depreciations. They may be eaten by rats and vermin; they may be destroyed or injured by water, fire, storms, earthquakes, or men; they may be stolen, they may rust or get out of fashion. Business depressions may reduce their selling prices. New inventions may render them worthless, and storage expenses may be so heavy as to finally double their cost price. The money which, according to Smith, should be necessarily running after them, according to every-day life gradually doubles itself through compound interest, whereas the goods become valueless. While all the forces of Nature and society will diminish the latter, every day in the calendar will increase the other. The money deficit continually grows, the goods which are supposed to represent the deficit continually decrease in value. On the other hand, the man who sells more than he buys puts money aside on which he obtains interest, and thus he can quietly wait for the period at which the very want of this money will throw goods into the market at reduced prices, when he will proceed to make up his stock of goods. Which of the two will have the more valuable stock of goods in the end? And does the case change in the least where a number of men are substituted for the individuals whose transactions have just been investigated, when we look at the facts presented by the trade of nations? A nation which exports more goods than it imports, and thus obtains a money balance, can invest this money for the purchase of goods when a suitable time arrives; and, as in the case of England, that time may be put off so long that the mere interest due on the money will buy more goods than the original capital balance amounted to.

Interest forgotten

Smith seems to have entirely left out of account that there is such a thing as "Interest" in this world when he uttered the

wonderful wisdom above quoted. In real transactions, however, this simple factor has completely proved the folly of running into debt where no absolute certainty exists that the advantage accruing to the debtor is at least as great as the interest he has to pay figures up to ; and in general, as we shall yet see in the chapter on "Interest," this advantage lies with the secured interest-getter. The mercantilists have thus been completely upheld by the universal opinion of the whole business world—except those of its members who studied books on political economy of the Smith pattern—in standing up for the most favourable balance of trade obtainable.

Effect of unfavourable Trade Balances

What the contrary means is best illustrated by Portugal's history during the last two centuries, as told by Friedrich List in his "*Das Nationale System der Politischen Oekonomie*." I translate from the fifth chapter of the first book. List's quotations from English sources are thus twice translated, so that the text may slightly differ from the original, which is not at my disposal :

"'When Count Erceira became Minister of Portugal, in 1681, he conceived the plan of erecting woollen factories to thus work up the country's own raw material and to supply the mother country, as well as her colonies, with her own manufactures. For this purpose, artisans were imported from England, and in consequence of the support given them, woollen factories began to flourish so quickly that already, after three years, the import of foreign woollens could be prohibited. From this time forth Portugal supplied herself and her colonies with her own manufactures, made from the local raw material, and, according to the testimonial of English writers, prospered thereby exceedingly.' (*British Merchant*, Vol. III., p. 69.)

"... But in the year 1703, after the death of Count Erceira, the celebrated English Minister, Methuen, succeeded in convincing the Portuguese Government that Portugal would gain very much if England permitted the import of Portuguese wines at a duty amounting to one-third less than that of other nations, for which Portugal would permit the importation of

English woollens at the duty of 23% which existed previous to 1684. Immediately after the ratification of the treaty of commerce Portugal was inundated with English manufactures, and the first consequence of this inundation was the sudden and complete ruin of the Portuguese factories, a success similar to that of the later Eden treaty with France, and that of the cessation of the Continental system in Germany.

"According to Anderson's testimony, Englishmen were already at that time very experienced in the art of declaring their goods under their value, so that practically they only paid one-half of the duties fixed by the tariff. (Anderson, Vol. III., p. 67.)

"'After the prohibition was levied' (says the *British Merchant*), 'we carried away so much of their silver, that they kept very little for their necessary occasions. Then we went for their gold.' (Vol. III., p. 267.)

"This business they continued until recent times; they exported the precious metals which the Portuguese received from their colonies and carried a great part of it to East India and China, where they exchanged them against merchandise which they sold on the European Continent for raw materials. The yearly importation of Portugal from England exceeded the export to the amount of one million pounds sterling. This favourable balance of trade forced down the rate of exchange to the disadvantage of Portugal 15%. 'We gain a more considerable balance of trade from Portugal than from any other country' (says the editor of the *British Merchant* in his dedicatory memorial to Sir Paul Methuen, son of the celebrated Minister). 'We have increased our importation of money from there to one and a half million pounds sterling, while formerly it only amounted to half a million.' (*British Merchant*, Vol. III., pp. 15, 20, 33, 38, 110, 253, 254.)"

The inevitable consequence of this drain of Portugal's precious metals and money was the institution of an inconvertible paper money which, whatever services it rendered to internal trade, could not pay the yearly debt resulting from the annual deficit of the trade balance-sheet, and other means of payment had to be found. Then began the usual cycle of mortgages on Portuguese land handed over to British capital-

ists ; of Portuguese Government bonds emigrating to England ; of the dominion of British capital in Portugal—capital imported in the shape of woollen goods, for which no wine was taken in payment, and accumulating in the usual way through compound interest, until one of the richest countries had become one of the poorest, until finally national bankruptcy, more or less veiled, had to alleviate the intolerable burden.

Adam Smith and Trade Balances

Adam Smith could see no disadvantage to Portugal and no advantage to England resulting from these conditions, and it is highly interesting to ascertain by what kind of logic such contradictory facts could be made to coincide with the preconceived theory of deductive reasoning. He thinks that there can be no advantage in thus obtaining gold and silver from Portugal, for "the more gold we import from one country, the less we must necessarily import from all others. The effectual demand for gold, like that for any other commodity, is in every country limited to a certain quantity. If nine-tenths of this quantity are imported from one country, there remains a tenth only to be imported from all others. The more gold, besides, that is annually imported from some particular countries, over and above what is requisite for plate and for coin, the more must necessarily be exported to some others ; and the more that most insignificant object of modern policy, the balance of trade, appears to be in our favour with some particular countries, the more it must necessarily appear to be against us with many others." (Book IV., Chap. VI.)

So many words, so many errors ! Certainly Smith could not know 125 years ago that England, in the year 1901, has become the world's creditor and capitalist to the amount of something like 2,500 million pounds sterling, merely through lending out her gold and silver, after having received it, or without at all receiving it ; by letting the debts accrue which become due to her in consequence of her active balance-sheets. He could not know this, nor did he know how affairs stood in his own time. He had the courage to write a book on political economy, without ever having been in active business life ; without knowing more of it than a student can learn

at his desk. Henry Thomas Buckle, in his "History of Civilisation in England" (Vol. I., p. 249), says: "The 'Wealth of Nations' is entirely deductive, since in it Smith generalises the laws of wealth, not from the phenomena of wealth, nor from statistical statements, but from the phenomena of selfishness, thus making a deductive application of one set of mental principles to the whole set of economic facts. The illustrations with which his great book abounds are no part of the real argument; they are subsequent to the conception. . . ." However, even Adam Smith knew that money can be lent out at usury internationally as well as nationally, and that there is such a thing as land purchased with gold, which land yields rent to its owner, whether that owner lives in England or in Portugal; also that there are really cases of continually favourable and continually unfavourable balances.

A False Premise

The worst trick in his speculations on international trade was played on him by the wonderful discovery he had made that "the general industry of a society can never exceed what the capital of the society can employ," which we had already a chance of admiring in the first part of this chapter. Upon this false premise his whole ideas of trade policy have been built up, and it is no wonder that the conclusions thus drawn from a false major are absolute nonsense. If it were true that a society could not increase its industry beyond fixed limits, it would be quite correct to conclude that the introduction of any new industry must correspondingly hamper one already existing, and that therefore the industries for which the country is best adapted are preferable to those of a more exotic nature. No use, consequently, to protect any industry, for what cannot maintain itself without such artificial methods had better make room for what is more congenial to the soil. As I have shown, the assumed fact does not exist; there is practically no limit to the extension of a society's industry. On the contrary, the more industries a nation possesses, the more industries it will have room for. If spinning flourishes, weaving succeeds; and if both have reached a certain development, the manufacture of spinning and weaving machinery will pay, which in its turn

gives an opening to foundries ; these to iron and coal mines, etc.

Unfortunately, authority plays a very pernicious part in public opinion. Carlyle's "thirty millions, mostly fools," are too much in the habit of following some men with great names like sheep running behind their leader, or we would be farther advanced. The first work urgently required before a sound building can be erected is to clear out of the way the old ruins. No headway can be made unless the work done by certain men of great renown is valued at its real worth, unless we fully recognise in which way these theory-mongers have managed to stultify themselves and the trusting public, which, though it does not understand their reasoning, estimates their depth by their abstruseness. It is taken in so much easier through the mutual support these philosophers give one another, through the flocking together of these

Birds of a Feather.

Here we have some wonderful theories on our present topic, hatched, in support of Smith's nonsense, by David Ricardo; a man who, though a speculator at the Exchange, had never any practical experience of mercantile business; which another theorist and deductive reasoner, John Stuart Mill, and still others of the same guild, are so delighted with that they debit the nonsense as if it were based on observations of real facts, and not merely on pure baseless inventions concocted at the scholar's desk. Adam Smith's deductively - found theories about international trade, culminating in Jean Baptiste Say's proclamation that commodities are paid for with commodities, had so delighted the imaginative Ricardo that he set to work to substantiate this assumption, even in the extreme instance of one country producing everything—without exception—cheaper than another country, as, for example, may occur with Japan. If that country, with its low wages, continues to progress in industrial development as it has done during the last three decades, there may soon be hardly any article which cannot be produced more cheaply there than anywhere else in the world.

Ricardo's Reasoning,

by me applied to the case of Japan and New Zealand, runs on the following lines : Suppose that Japan requires for the production of a certain quantity of iron a year's work of 80 men, which we call 80 units, while New Zealand needs the work of 120 men for one year, or 120 units, to produce the same quantity. For woollens, the same quantity for which we require 100 units Japan only requires 90. Still, thinks Ricardo—and Stuart Mill, etc., with him—though both articles are cheaper in Japan than in New Zealand, it would pay Japan to export iron to New Zealand, and to import woollens from New Zealand, because, in that case, she would obtain for a quantity of iron, which cost her only 80 units, as much of the woollens as 120 units can manufacture in New Zealand. As 100 units of New Zealand woollens are worth 90 in Japan, 120 are worth 108, and so Japan would obtain 108 units of wool for an outlay of 80 units. She would, therefore, find a considerable profit in the transaction, though the imported woollens are actually dearer in New Zealand than in Japan. Also, New Zealand would benefit, for the iron which she paid with 108 units of woollens would have cost 120 units if produced in New Zealand, and by spending the labour on woollen production more iron was produced with the same quantity of labour than if she had produced both the iron and the woollens.

Even the deductive reasoning evolved at the scholar's desk has its limits where the opposing facts are too clear and simple ; and thus Ricardo could not quite blind himself to the obvious inference that in a case like the one here given, Japan need not at all take the dearer woollens, but might insist upon cash payment, and thus be still better off than if she paid herself in woollens. But the theory has to be maintained at any cost, in spite of the obstreperous facts, and so a new theory has to be invented to buttress up the other.

Quantity Theory called in

The quantity theory in its rawest form—in which form, as I have shown, it is absolutely false—has to be called in, and thus

the following reasoning is arrived at by the great theorist. Japan actually begins by shipping iron and woollens to New Zealand, requiring to be paid in gold. This naturally produces a scarcity of money in New Zealand which lowers prices there; while the importation of so much money into Japan increases the money circulation, and consequently raises prices in that country, until finally not only it no more pays to export iron from Japan to New Zealand, but, on the contrary, woollens can now be imported from New Zealand to Japan, until the monetary balance is again brought to its level in both countries through the re-exportation of gold from Japan to New Zealand.

Wonderfully simple, is it not? I should gladly join in the hearty laugh of any practical business man who reads these splendid elucubrations if the subject were not too serious altogether; for we must not forget that Ricardo does not stand alone in this reasoning. John Stuart Mill and many others walk in his footsteps. One of them, the American economist, Amasa Walker, finds in this fallacy the strongest argument against paper money.

"By substituting a money which derives its currency from the authority of Government for the money of the commercial world, a country loses in the very act of doing so all the benefit of the automatic distribution of money through the agency of price over the commercial world. We have seen that any excess in the money of the country above its distributive share of the money of the world makes that country a good country to sell to because prices there are high, and a bad country to buy from for the same reason; and that, in consequence, imports being increased and merchandise exports diminished, the excess of money which caused the temporary disturbance of prices passes easily and quickly off on settlement of the balance.

"The amount of paper money in a country is not to be regulated in this way . . . hence the regulation of such a money is not automatic. It has got to be done by hand . . . the paper has no outlet for foreign trade."

And these are the men whose opinions are continually dinned into our ears wherever and whenever we touch the existing

system. They are the evangelists whose gospel is preached by people who do not understand it, to others who have never given it a thought, but who accord their willing assent, even where their personal interest is not served by the teachings, for the same reasons which made the swindle of the two adventurers in Andersen's

"The King and his New Clothes"

so successful. These men had engaged to spin and weave for the king a suit of clothing which had the wonderful quality that only those could see the garments who were gifted and capable. In reality, the men made but a pretence of spinning and weaving, while their spindle and loom were empty; the money received for the expensive raw material they said they required being put into their pockets. The king wanted to know how the work progressed, and sent his ministers, who, though they did not see anything, gave glowing reports of the magnificent stuff, for not seeing it meant stupidity and incapacity. Finally the king himself went, and praised the artisans' work, for the same reasons kept him from acknowledging that he really saw nothing. At last the clothing, which did not exist, was to be worn in a great procession of state, and the swindlers acted as if they clothed the king with the imaginary dress—which was much admired by everybody in town, as the wonderful qualities of the stuff had been made known, and consequently nobody wished to appear less wise than the others who pretended to see the clothes. Only a child said: "But he has not got anything on!" and thereupon one after another whispered the same truth, not daring to tell it aloud, while the king gravely continued his march in the procession.

How often have I met with these ministers, this king, and this crowd; how rarely with the child! In concerts, where every listener was bored by certain classical music, and yet turned up his eyes with pretended admiration, not to be supposed ignorant and destitute of taste. In Italian galleries, before the pictures of old masters I have heard the loudly expressed admiration of men and women who really were bored by what they saw, for they did not like it half so well

as any interesting chromo in a shop window. Books which nobody reads are praised in the same way, and for the same reason ; and how can you expect Mr. Smith and Mr. Brown to doubt any statement backed by big names like those mentioned, when such action would merely advertise their own ignorance ? Fortunately, I am not the only child in the crowd daring to say, "But I cannot see any clothes !" Fortunately, the spirit of investigation is gaining ground rapidly, for the contradictory facts have become too obtrusive to be longer hidden under any amount of fine phraseology.

Debt the Ignored Result

After my reduction of the quantity theory to its true dimensions, after my specification of the part played by credit in circulation, and especially after my demonstration of the real nature of international settlements, I need not say much in the way of illustrating the astonishing theories and their justification here put before us. Any practical business man knows that, in an illustration like the one just drawn, Japan would regularly send iron and woollens to New Zealand ; and as we have no money to pay for the goods, if we cannot export goods in return, the result would merely be a further indebtedness of our country. Japan would make herself paid by accepting New Zealand bonds, mortgages, etc., and would gradually play the part towards us which England has been playing towards Portugal. We have seen that the loss of her silver and gold to England did not bring any remedy in the shape of sufficiently lower wages and prices in Portugal to enable that country to compete in woollen manufactures with England, or to send a correspondingly larger quantity of wine there. Nor did the gold and silver obtained by England increase the cost price of its manufactures so as to disable it from competing with Portugal. In Portugal an inconvertible paper currency took the place of its metal money, and gold rose to a premium ; but competition with the English manufacturer did not become easier for that, as improved processes of manufacture, rendered possible through the larger turnover, made up for any losses English importers incurred through the Portuguese gold premium, in spite of its cheapening effect on the wine prices.

Instead of English prices having risen through a larger stock of gold and silver, they had gone down, for the increase in England's stock of precious metals had not kept pace with the demand resulting from the growth of its turnover, leaving entirely aside the fact that the imported gold and silver, as far as it could be spared, was at once paid out again in other markets, and finally invested in foreign bonds, land, and mortgages. England grew richer and better able to further improve her machinery and manufacturing facilities, so that woollens were made cheaper than ever before, while impoverished Portugal found still greater difficulties in competing with the powerful importer. We must not forget that it is impossible for the poor to establish a new industry, or even to keep up an existing one in an open market against a powerful competitor. The well-known dodge of under-selling—even if for a time the work has to be done at a loss, until the poorer competitor is ruined—has been regularly resorted to by the powerful American trade combines, so as to force resisting firms to come in or to close them up; and the same trick, as we shall see farther on, has often been used internationally by England.

After all, when we speak of Portugal as exporting and importing, it is not the country, but its manufacturers, farmers, and merchants who are meant, and it is the effect on their finances which must first be taken into account. The country's finances only suffered indirectly through its bonds going abroad, and through the decrease of the tax-paying power of the people. The interest of the bonds was payable in gold or silver, which had to be procured by the Government in a market from which the precious metals were disappearing. The premium which had to be paid under such conditions to obtain the gold or silver had to be raised by additional taxation in a country already weakened in its resources through the decay of its industries. Finally, the interest of the national debt had to be paid by means of new loans raised abroad at increasingly unfavourable terms until, in the end, the national credit went down altogether. In short, as all States are largely indebted, the difference is this: A State with active financial balances is indebted to her own citizens, while the State with the passive balance becomes the debtor of foreigners. The former can gradually pay the debt by taxing the creditors; the latter has

no such power, as we generally cannot tax the citizens of other countries. The experiment of levying a tax on the interest due abroad has been tried and found a bad policy, for such a breach of faith with creditors had to be dearly paid when new credits were needed. Where the tax is agreed upon from the beginning, it is simply added to the interest rate by the foreign creditor, and is thus paid by the domestic tax-payer.

New Zealand's Case

We need not go so far as Portugal to see the effect of passive financial balance-sheets. I estimate New Zealand's present debt abroad—if we add the debts of the State, the public bodies, and the private indebtedness to the people of other countries—at 90 million pounds sterling; costing us not less than 4 million pounds yearly interest. Our average excess of exports over imports during the last fourteen years was only about $2\frac{1}{2}$ million pounds a-year, so that our indebtedness increased at the rate of $1\frac{3}{4}$ million pounds a-year. The indebtedness is due to former passive trade balances, which, even so recently as 1873-1885, averaged £1,280,000¹ a-year. The deficit of £16,600,000 accruing during these thirteen years—which, as the heaviest balances against us fall into the first years of the series, we may average to date from 1878—must have cost us at least 50 million pounds by this time, if we count interest at the rate of 5% only, which is altogether too low when we consider the influence on the average rate which the high interest paid by private borrowers during that period exercised. To this have to be added the older debts, much more increased through accumulation in consequence of the higher rate and longer period. Deducting on the other side the interest payments through favourable balances, we obtain another 40 million pounds to be added to the 50 millions, the whole 90 millions being the outcome of an excess of imports, with compound interest added.

1. If it is true that in 1901 a passive trade balance of 1 million pounds sterling is struck, this means a passive financial balance of 5 millions.

Interest often makes the Cheapest Market the Dearest

Not only Smith, Ricardo, Mill, and their disciples, but pretty well all who discuss trade politics in our time, have taken little or no account of this multiplying power of interest. They do not realise that buying in the cheapest market, on credit, may finally prove to have been a buying in the very dearest market. What was bought fourteen years ago at 15 shillings on credit costs us to-day 30 shillings at 5% compound interest; and we certainly would have done better to buy at £1 in our own market. If, through our importation, a corresponding amount of our own labour had to remain idle, which, if put to work, would have produced the goods, and if we had to feed these men, anyhow, there is an effective loss of 30 shillings in a transaction which seemingly showed a profit or saving of 5 shillings. And when we consider that £1 left for 100 years at 5% compound interest figures up to £140, we can easily see that no amount of saving in the purchase price can make up for the final loss caused through buying on credit where this could be avoided.

The Case would be different if Interest did not exist,

for then debt would only mean deferred payment in goods of some sort. The theory that commodities are paid for with commodities would be true. There need be no more fear of importation without a corresponding exportation. In fact, the longer this exportation is deferred the better for the debtor, who would have the free enjoyment of the imported wealth until such time as the importer chose to pay himself by exportation. Better still if he omitted this exportation altogether; it would mean that he made a gift of his wealth. All the stock arguments of free traders would then be as correct as now they are false. False, because they are building a correct principle on a false basis, forgetting that to obtain a positive figure out of a negative one we must multiply it by another negative. Interest is negative, free trade is positive: result of multiplication negative. Prevention of importation is negative, and its multiplication

with the negative interest gives a positive result. Interest is a poison, so is protection, and the counter-poison may destroy the dangerous effects of the poison.

Employment of Local Labour the main Factor

I agree that the assumption of unemployed labour as an effect of importation is to a certain extent unwarranted. At the foundation of a colony it may, for instance, be considered a good policy to borrow capital, say in the shape of imported tools and machinery, because the workers are all employed on better paying work, and the saving due to the importation may be far greater than the interest on the debt amounts to. As soon, however, as a period is reached when workers are unemployed, or insufficiently employed, in consequence of the importation of goods which could as well have been made locally, the position changes. The fact that the article thus imported could not have been made as cheap in the colony can be given as a good reason for the importation only if it can be claimed that, in consequence of this importation, something else could be exported which has cost less labour, and by which the imported article was directly or indirectly paid for. In no case could an excess of importation be justified by such an argument; for this very excess, in the face of unemployed or insufficiently employed labour, means that we have borrowed abroad at interest what our own unemployed could have produced at home. To see this more clearly, let us transfer the illustration from the trade between the collectivity of individuals of different countries to some single individuals of the same country.

The Case of John and Bill

John, a tailor, needs some chairs. If he were fully occupied at his trade he would act very unwisely in making these chairs himself. He is not skilled in such work, and it would demand ten times as much of his time as Bill, an experienced cabinet-maker, requires for the purpose. John would do much better to make a coat in the time, and buy chairs out of the proceeds,

certain that the same labour time thus spent will buy more chairs than if he spent it on chair construction.

How would it be, however, if through a too limited demand for coats, John were only half employed? Would he not prove a better householder if he spent his idle time on chair-making than if he were to buy those commodities on credit or with his savings, sitting in his shop, and looking out of the window all the time? Now let us spin out the story a little farther, and let us assume that Bill, too, is only half employed, but sadly needs a coat. Would not Bill do better to make this coat by his own labour in his idle time, never mind how long this will take, than to run into debt for it, or pay out money saved for a rainy day? No doubt the most practical way for both would be to use their unemployed time to work for each other. John would make Bill's coat in one-tenth of the time in which Bill could make it, and the same thing would happen in regard to Bill's taking John's place as a chair-maker. Certainly both parties would fare much better by such an exchange; and no doubt they would do this if feasible. But the two do not know each other, and barter between them is out of the question, as it practically is in the greater part of ordinary business affairs. John finds that his cheapest way of getting chairs is to buy them at the next furniture dealer's, and Bill buys his coat in a department store. Both these middlemen—for some reason or other—have no use for the labour of the two artisans. Perhaps they can buy imported goods cheaper. Both artisans borrow money from a usurer to buy the things they want, or they run up a bill at the store. Would it not be far better for John and Bill if, in some way—let us say, for instance, by means of a prohibitive duty—they were prevented from buying the cheap goods? Never mind what the addition to the price might be; they would be better off if the goods were made locally, and if they thus obtained employment. What would it matter if Bill had to pay £5 for a coat which could have been imported for £1, and if John gave as much as £5 for the same chairs which could have been laid down in the country for £1; when the real result was simply that John made a coat in exchange against Bill's chairs, and Bill made chairs in payment of John's coat? In this case, the amount at which both commodities figured in the mutual accounts would prove absolutely

indifferent. Anything was better than to have two willing workers sit idle in their shops that they might give employment to foreign workers. Under such conditions, even

An absurd Waste of Power

such as Adam Smith describes in the second chapter of Book IV. may prove the lesser of two evils.

“By means of glasses, hot-beds, and hot-walls, very good grapes can be raised in Scotland, and very good wine can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and Burgundy in Scotland?” My answer is: If the foreign wine-producing countries will not accept British goods in payment for wine, while Scotch workers, in consequence of this refusal to accept the products of their labour in payment, cannot find any work to do, it would decidedly be better policy to set them to digging coal, making and laying steam-pipes, building and heating hot-houses, therein to raise grapes, than to reduce these willing workers to a pauper's state, fed by the produce of other workers. The cheapest foreign wine for which we have to run into debt, through compound interest, will finally be the dearest we ever bought, and workers, who otherwise would have to be fed in idleness, can be looked at as working for nothing. Those who always speak of the consumer who ought to buy in the cheapest market forget that at least 95% of the population are first producers before they can be consumers, and that therefore the producer's interest must be nearest to their hearts. Unfortunately, from the non-producing minority arise those whose position gives them the power of directing the nation's policy.

I wish it to be understood that, so far, I have not in the least stood up for protection; the problem of tariff policy will be treated in the next chapter. Here I only had to show that buying in the cheapest market is not always the best policy; that this cheapest market may after all prove the dearest; that under any condition

Reciprocity of Trade

has to be aimed at. I know that the great Scotch professor treated this principle with utter contempt. In Part II. of the third chapter of Book IV. he says: "The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire; for it is the most underling tradesmen only who make it a rule to employ chiefly their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind." It would have been better for the world if Adam Smith had been either an underling tradesman or a great trader, before he set about writing on the business of such persons. Even the great trader would have told him that nothing is cheap which you have not the money to pay for; and that if buying in the cheapest market results in a corresponding loss of custom, he will not buy there. Unfortunately, a single great trader, as a rule, does not as certainly lose customers where he withholds his own custom as the "underling tradesmen" do, or much of this chapter might have been left unwritten. Usually an importer does not in the least care which nation proves the best customer of his own country when he gives his orders. He merely compares price-lists and qualities, and then orders his goods. In fact, he can hardly act differently, or the competition would swamp him. Nor is it his business to attend to such matters. His Government has to look out for measures which prevent the community from running into a permanent and growing debt by its international trade.

Balance of Trade and Financial Balance

Not to be misunderstood, I must add a short explanation. Favourable, active, positive, or unfavourable, passive, negative balances of trade do not necessarily correspond with similar financial balances. A balance of trade may be active and the financial balance passive, as is the case in New Zealand at the present time; and the trade balance may be passive and the financial balance very active. England has long shown the most prominent example of such a country. Its imports

exceed its exports considerably, but generally the deficit has not reached the amount due from other nations on interest, rent and profit account; while our poor colony, in spite of its favourable balance-sheets, runs deeper and deeper into debt because the interest debt due to England is much higher than the balance of trade in our favour. If our balance of trade were passive, or if our exports only just balanced our imports, we should simply incur yet greater indebtedness; and if England had a less passive balance or even an active one, she would become richer still. As I said before, she would act like a miser who does not spend his income, who increases it all the time by putting out his savings at interest.

Defective Balance-sheets, and still more Defective Conclusions

We must not leave out of sight, either, the fact that trade balance-sheets are very defective, that imports are often undervalued to save duties, and that the statistics of exports are very deficient. The prices realised in foreign markets differ, often materially, from those at which the goods figure in our export lists. Nor am I less familiar with the argument frequently advanced in our free trade literature that the larger amount of imports shows a corresponding profit made by the importing country through getting more in return than it paid out. For instance, it is said that a manufacturer of country A ships a certain amount of cotton goods that cost him £1,000, which he sells in country B for £1,200 worth of ivory. This ivory fetches in A £1,500. The exports of A now figure at £1,000, and its imports at £1,500, which gives a passive balance of £500; but instead of running into debt for this amount, our manufacturer has actually made a profit of £500, and the country has £500 more of wealth than it had before, without owing a penny. Country B is better off, too; for the ivory there costs originally only £1,000, while the cotton goods bought very cheap at £1,200 sell for £1,500; so that actually country B is also £500 richer than it was before, and no debt has been incurred, though its imports figure at £1,500, while the exports were only £1,000.

People who reason like this are of the Adam Smith line of

deductive philosophers, supremely superior to actual data, which they manipulate according to their pet theories. To begin with, exports do not figure, or, in a correct balance-sheet, ought not to figure at cost price, but at selling price; and imports do not figure at selling price at home, but at their cost price abroad, with freight added or left out of account. Calculating in this manner, country A exported £1,200 worth of cotton goods and imported £1,200 worth of ivory, and country B imported £1,200 worth of cotton goods and exported £1,200 worth of ivory. The only item in this transaction which may swell or diminish the financial balance in both cases is the freight, which is in favour of the country that earns it.

Freights are often added to imports and deducted from exports. The great variety of ways in which the values of exports are calculated furnishes the principal cause why the totality of all imports in the world considerably exceeds the exports, which otherwise would be impossible, for if the exports of one country exceed its imports, the imports of another ought to correspondingly exceed its exports. Exports are often calculated at average prices not corresponding with the real figures; or at wholesale market prices which, for the principal exports, closely correspond with the selling price abroad, minus commissions, interest and freight. The main reason, however, for the excess of export figures is found in the comparative reliability of import statistics, the result of forcing all imports through custom houses; while statistics of exports are usually very loosely handled, with very uncertain valuations.

The money spent in travelling abroad is an important item in the financial balance of rich countries on the passive side of the financial balance; that brought in by immigrants and tourists has to be added on the active side. (Six million pounds are spent yearly in Switzerland by tourists.) These are A B C matters which any business man knows, but business men are not the raw material from which our officials who draw up the trade balance-sheets are made. Nor do business men, as a rule, write books on economics. This work is usually undertaken by scholars who know as little of practical business as Adam Smith did when he evolved his trade policy principles from his brain, undisturbed by the troublesome observation of real facts.

I have no wish to depreciate the merits of the great Scotch thinker, but he undertook an impossible task ; for it is as impossible to do justice to economic subjects without practical business experience as to bake wheaten bread without any wheat. This is the reason also why "Protection and Free Trade," by Henry George, though written in his best style, is the poorest of his books. As little as Smith had he ever been in business, and experiences which to a business man have become flesh and blood are to men of this kind undigested raw materials or *terra incognita*. Most interesting in this respect is Chapter XIII. of George's book, "Confusions arising from the Use of Money," which ought to be styled :

**"Confusions arising from the Ignorance of
the Part Money plays in Business."**

Because a man who barter with another strikes the better bargain the more value he obtains in return for what he gives, George concludes that the more the value of her imports preponderates over that of her exports, the richer a nation must be. His reasoning, like that of all free traders, is based on the "commodities pay for commodities" fallacy, which assumes cases of barter where, in reality, purchase and sale, *i.e.*, money transactions, are carried on. Under the money system a nation's imports, like an individual's purchases, represent not income but expenditure, unless they are obtained as a gift ; while exports are sales, and represent income instead of expenditure, if they are not given away gratis. In this way George is kept from realising the great difference involved in the use of money. The adoption of one scarce metal as legal tender, as the only commodity with which a man can free himself of a money debt in those countries which are generally kept in view when international trade is considered, has entirely changed the conditions. As I have already shown, market value is the only value which economists have to deal with, and market value under barter is entirely different from market value realised in the market where goods are sold and bought for money.

Merchandise Wealth and Money Wealth

This is entirely left out of sight by Adam Smith when he says, in the chapter last mentioned: "As a merchant who has a hundred and ten thousand pounds' worth of wine in his cellar is a richer man than he who has only a hundred thousand pounds' worth of tobacco in his warehouse, so is he likewise a richer man than he who has only a hundred thousand pounds of gold in his coffers."

If the professor had asked the first bank manager he met to whom he would give the largest credit, the answer would have shown him how the wealth of his two men—that of the wine merchant and that of the man with the money—is estimated by the official valuator of this department from the money market point of view. The man with the gold in his coffers would only require to transfer this gold to the vault of the bank for safe keeping, and could at once obtain permission to draw cheques to the full amount of the gold; while it is questionable whether a cautious bank manager would grant any overdraft at all to the man with the wine. At the most it would be a small fraction of the cost price of the wine, even if a lien were given on it. Experience has taught such men that the value of wine depends entirely on that of the man who owns it. If a person does not understand his business, he may spoil this wine through false treatment, so that it is not even worth as much as vinegar; or he may have misjudged his market, may have bought light wines when there is only a demand for strong ones. He may have a bad reputation in the trade, so that, even though the wine be genuine, buyers are afraid of its having been adulterated, and do not want it at any price. One of his employees, incensed at some bad treatment, may go into the cellar and open all the spigots, letting the wine run away. Or a financial crisis may force on general retrenchment, and wines become unsaleable for a time, or saleable only at a ruinous sacrifice. All these and many other considerations may prevail with the banker to refuse advances to the wine merchant, where the moneyed man is allowed to draw up to the full value of his gold.

Commercial crises preach the most eloquent lesson as to the

difference between the value of merchandise and that of money by showing that, though the value of merchandise measures that of gold as much as the value of gold measures that of merchandise, there is a great difference between the two in the facility of realising the value. Professor Roscher reports five large spinning establishments in Manchester, valued at £212,000, which, in the crisis of 1841-42, were sold at £66,000. Facts of this order are not confined to commercial crises. I have met with different cases within my business experience, where in ordinary times even a smaller quota of the cost price has been obtained at forced sales. The mercantilists may have been less accomplished thinkers than the founder of the free trade school, the patron saint of Manchester; but they certainly were better business men. They knew that in international accounts the same principle obtains as in the dealings of private citizens, that, in both cases, it matters little how rich each party values himself, but very much how he can pay his way. A merchant may sell goods which have cost him only £10,000 for £12,000, and buy in exchange goods valued at £20,000 for only £18,000 and yet become a bankrupt when he is held up for the balance of £6,000 he owes, at a time when the goods he bought will not sell, or sell only at half their value. Even if longer credit is obtained so that he need not sell at a loss, interest has a nasty habit of increasing the debt until finally a gross profit may change into a net loss. That the same thing really happens in the trade of nations has already been shown. Our New Zealand has certainly done a paying business in her foreign trade. Our farmers had to spend much less labour on the production of the wool with which they paid for their fencing wire than if this labour had been directly applied to the manufacture of the wire; but for all that, the compound interest on the excess of imports, valuable as they were, and much as they increased the wealth of the country, may in the course of years raise the cost of the fencing wire beyond its value, and may prove that New Zealand has very expensive fences after all. And even if this were not the case, it is certain that if our creditors sold us out some day to recoup their money, the losses which we should have to sustain on our assets would by far exceed our profits. If all our mortgagees called in their mortgages, whenever due, in consequence of a great money

tightness or some other cause, our land, including the improvements, under the unfavourable market conditions thus created would certainly not fetch the amounts borrowed on it ; so that the farmers would have to sacrifice everything else they own, and even then probably be unable to pay twenty shillings in the pound.

A favourable balance of trade must therefore be the most serious consideration of statesmen, except in the case of creditor countries like England and Holland, which have large interest dues partly or wholly accepted in merchandise from their debtors.

The real Balance to be considered is the Financial Balance

I repeat this for the purpose of cutting off shallow free-trader jokes like that of merchandise intended for importation, but burned at sea. Its destruction, it is said, diminishes imports, and thus procures a better balance of trade ; *ergo*, it is better for a country if cargoes of this kind are lost than if they arrive in safety. Certainly in such a case the actual imports are lessened, but the financial balance remains the same as if the ship had arrived, for the goods have to be paid for if they run at the risk of the importing country, and if they do not, other goods will take their place ; they are as if they never had left their home port.

Effect of Currency Reform on Balance

Having cleared the way to a thorough understanding that—in ordinary circumstances, and certainly as long as interest accumulations are likely to exceed any advantage enjoyed by the debtor—"keep out of debt" is good advice, whether given to an individual or to that congregation of individuals which we call a nation, we have now to investigate how far an improved currency can help in this direction. Later on we shall try to find what tariff policy is likely to prove most favourable for the purpose.

I shall first try to prove that the introduction of a paper currency cannot affect the country's financial balance injuriously,

provided there is no such inflation that the credit of the country is injured at home and abroad, and this is out of the question with a scientific paper currency as here contemplated.

Where exports exceed imports, if a gold balance is claimed by the country in question, it matters little what currency it may possess. If it has a gold currency, it will import as much gold as it needs, and no more; the balance will either be used to pay debts with, if it is a debtor country like New Zealand, or to be lent out, if it is a creditor country like England.

Where imports exceed exports, a creditor country pays the passive balance with its capital and interest dues abroad, and a debtor country runs farther into debt, never mind what currency either country may have. Should it insist on maintaining a gold currency, and consequently be compelled to reserve a certain gold stock, the debt incurred must increase faster than it could do in a country which uses paper currency, and which is thus at liberty to spend all its gold in paying for the excess of imports. In any case, the gold will not go abroad as money, but as a merchandise, as Jonathan Duncan, in the book already mentioned, correctly says :

“How, then, should we pay the balances on our foreign trade, since the money of the State and the money of commerce, not circulating beyond our own shores, would be confined to our domestic transactions? We should pay the balances on our foreign trade, as we now pay them, in gold, but with this difference: that we should pay them in gold as a commodity and not as money, and consequently at the market price of that metal, and not at the mint price. We buy the wines of France, the tallow of Russia, and the wheat of America at their respective market rates; and if foreigners want our gold, instead of our woollens or hardware, we are fools indeed if we pay them in a fixed price, when they charge us in a variable price. We are only going back to the double currency already described as in use in the old cities of Greece; and without wishing to be uncourteous, we prefer the wisdom of Lycurgus and Plato to that of Sir Robert Peel and Mr. Jones Loyd.”

Balances of different Countries

A cursory review of the balance-sheets of the different countries of the globe presents active and passive countries (countries with favourable and unfavourable balances) with gold currencies, and active and passive countries with paper money. I first give the gold currency countries, and add P for passive and A for active ; after which I shall in the same way give a list of the paper countries. I take the trade balances of the beginning of the eighties as the latest I find just at hand. (Russia had still a paper currency at that time.)

(a) Gold Currency Countries

Great Britain P, Germany A (now passive), France P, United States A, Netherlands P, Belgium P, Switzerland P, Sweden P, Norway P, Denmark P, British North America P, West India A, Egypt A, Uruguay A, Paraguay P, New Zealand P (now active), Australasia, as a whole, now A, Ecuador A.

(b) Paper Currency Countries

Russia A, Austria A, Italy P, Spain P, Portugal P, Greece P, Turkey P, and the whole of South and Middle America (not including Ecuador, Uruguay, and Paraguay, which have maintained a gold currency) A.

Method of International Settlements

If present conditions did not change in such a case, our New Zealand, in passing from her gold currency to a scientific paper currency, would, as she now does, pay for her imports by means of her exports. (I hope I need not go into details to show how the exporter draws on England for the proceeds of his exports, and how the importer buys the draft directly or from the banks to pay for his imports.) The surplus of the export proceeds is paid in gold by the foreign countries, which gold, as a rule, does not come here, but is paid for the interest dues of our English creditors. As this surplus is not enough to pay for the whole

of these dues, we have to borrow more gold on bonds and mortgages; and this would continue if nothing else changed, never mind what our currency may be. Our mortgage debtors and the treasuries of the State and the public bodies would have to find directly or indirectly (through taxation) the gold to pay their interest dues as they now do, either through exports or new gold debts.

Gold at a Premium

That the gold they have to borrow might be held at a premium, after gold is no more the basis of our currency, even in case of the scientific currency here proposed, does not at all change matters, for so would the gold proceeds of our exports be at a premium.

To make this clearer, let us take our trade of 1899, and let us give the figures under two suppositions: 1, under the present gold currency; 2, under a paper currency accompanied by a temporary gold premium of 25%, £100 gold being for a time worth £125 New Zealand paper money.

Under 1, our exports were, in round figures, 12 million pounds; our imports £8,700,000. Our interest and rent debts abroad, etc., were 4 millions, and we consequently had to borrow £700,000.

Under 2, our exports fetched 12 millions in gold, which would mean in our paper 15 millions. Our imports cost us £8,700,000 in gold, which would mean £10,875,000 in our paper. This would leave us a surplus of £4,125,000 in paper, for which we should have to buy £3,300,000 of gold to pay our interest, etc., debts with, and a balance of £700,000 in gold is due as before.

In either case we have to borrow gold, and have an equally poor chance of ever paying it if it were not for the powerful effect which the introduction of a scientific currency must have on production, and thus on our balance of trade.

After having explained the influence exerted by our gold money on distribution, and consequently on production; after having shown the restrictions produced by forcing our whole trade through the narrow eye of our golden needle, I need not further dwell upon the hopeless case of a debtor country with a gold currency which suffers under a passive financial balance-sheet. On

the other hand, I have already shown the favourable effects of a scientific paper currency, which we shall appreciate to their full extent only when we consider them in the chapters treating of Interest and Capitalism.

Favourable Effect of Gold Premium on Balance

One effect which a paper currency may have on the balance of trade has yet to be considered. It is claimed that a paper currency, or even a silver currency—so long as silver is demonetised in most commercial countries—may bring about a restriction of imports and an increase of exports through a rise in the price of the former, due to the gold premium and the reduced cost of the latter; as, up to certain limits, a depreciation of a currency, when compared with gold money, may not imply a depreciation of its purchasing power for commodities and wages, whose prices might remain unaltered. J. Shield Nicholson (Professor of Political Economy at Edinburgh), speaking of America during the Civil War, in "A Treatise on Money and Essays on Monetary Problems" (pp. 159-60), says: "A premium of gold arose through special demands for it for war or export before general prices were affected, and for some time it continued at a higher level. That is, at first the notes became depreciated as regards gold, but not as regards commodities, and then not so much as regards commodities. Now, apply this illustration to India. Silver is there both the actual currency and the standard of value: it is in silver that the people are accustomed to think of values, and they look on gold simply as a commodity, like pearls or tiger skins. There is, from the Indian point of view, no more reason why a fall in the value of silver compared with gold, or, what is the same thing, a rise in the price of gold, should raise general prices than a rise in the price of pearls or tiger skins, or any other luxury. To the great mass of the mild Hindoos the depreciation of silver means simply a rise in the price of gold; it means that they will have to give more than before for ornaments made of that metal, for little ingots to put away in their hoards. But the depreciation of silver has in itself no more effect on the general level of prices in India than a fall in the

price of the finer classes of notepaper would have had on the value of the greenbacks in America."

Not that we could draw a general conclusion from the case of India, the masses of whose people do not depend on importation for the necessities of life, and consequently are not affected by any rise of importing prices through the gold premium. But, as the case of the United States—quoted by Nicholson—shows, we can admit that, to a certain extent, the effect of a gold premium in silver or paper currency countries will not necessarily make itself felt in the prices of many commodities and of wages unless certain causes come into play—as, for instance, a general absence of belief in the stability of the Government or a degree of inflation which forces on the general conviction of an early demonetisation of the paper. Both causes were at work in the case of the first French Republic.

Effect of the Gold Premium in New Zealand

The same effects would also be produced in our country if our paper money fell below par with gold, the only eventuality we have to investigate—a rise above par being excluded as long as gold coins are also accepted as legal tender. Part of our country is practically little influenced by foreign prices, as far as the local consumption of some of the most important necessities of life is concerned. The cost of transportation is too high, the perishability of certain goods is too great to allow foreign markets an appreciable influence there. Never mind what the export price may be, local consumption pays best. In so far as wages depend on the cost of living, there is no reason why these should be influenced in such sections by the fluctuations of foreign markets. To a certain extent, therefore, a gold premium will increase our exports and decrease our imports, leaving out of account the general effect on our prosperity and power of competing with the outside world which better money facilities would afford us.

In now proceeding to illustrate the

International Price Relations under a Scientific Currency

I specially confine myself to the effects likely to be produced in New Zealand under different contingencies ; not only because this country, for different reasons, is most likely to take the lead in the introduction of a rational currency, but because it is for the present exceptionally dependent on international trade, so that conditions are much more unfavourable than in the United States, for instance, which are a world in themselves. We shall investigate the effect produced by the new currency under four conditions :

1. A general appreciation of gold, marked by a fall of prices all round in the gold countries.
2. A fall of the price of New Zealand exports in gold countries, while imports remain unchanged.
3. A fall of the price of imports, while export prices remain unaltered.
4. A rise in the price of imports, while exports remain stationary. (A fifth case of a rise in the price both of exports and imports may be left out of consideration as it only presents an intensification of 4.)

In the first case, no other effect will be produced but a rise in the price of gold in New Zealand. There will be a gold premium corresponding to the difference between our prices and those of the gold countries. If our prices have retained their average of 1,000—as they would with a scientific currency—while English and foreign prices went down to 800, gold will be at a premium of 25%. £800 merchandise bought or sold abroad being worth £1,000 here, £80 would be £100 or £100 equal to £125, which means that £100 of gold have to be paid with £125 of New Zealand paper money. Practically nothing would be changed. While before, £100 of wool would buy £100 of fencing wire in London as well as here—leaving freights and commissions out of account for simplicity's sake—under the changed conditions wool worth £100 here would only fetch £80 in London, while fencing bought with the £80 realised in London would bring £100 in New Zealand. Now, as before, £100 in our money would be realised for the wool and paid for the wire.

2. Wool and other exports of our country have gone down one-half in London, while the price of wire and other imports has remained stationary. As the price of our wool and other principal exports depends on the London market, a fall of our prices in such a case is inevitable. To obtain an easy calculation, let us suppose that our whole turnover is divided into three equal parts: (1) our exports amount to one-third of the whole; (2) our imports figure up to another third; and (3) our turnover in goods locally produced and consumed constitutes the balance. The last third, we suppose, to be divided into two equal parts: (1) raw materials and food stuffs such as we export, and (2) manufactures such as we import, leaving out of consideration that our local production and consumption contain many articles as good as never exported or imported, and assuming the exact conformation of local prices to foreign ones.

Under these conditions, a price fall of 50% in group 1: exports, would reduce the average price of the whole turnover one-third of 50%, or 16⅔%. Our tabular standard would consequently fall to 833⅓, with the immediate result that more money is issued until the old average of 1,000 has again been reached. As we can only change our own price level, and not that of the gold countries whose level is 833⅓, this would simply mean that the international means of exchange—gold—would rise to 20% premium for 833⅓: 1,000 = 100:120. The outcome would be that the local price of exports, which always corresponds to the foreign price, reaches 50 plus 20% = 60; the price of imports would rise to 120. As the last third of the turnover is supposed to consist of the same two parts, one-half would not go up beyond the foreign price of 60, under our assumption; and the other, as we leave freights and protective duties aside would not exceed the price of 120.

Our price tables would now figure as follows:

Exports, ...	33⅓% at 60 = 200
Imports, ...	33⅓% at 120 = 400
Local products for local use, {	16⅔% at 60 = 100
	16⅔% at 120 = 200
	900

To reach 1,000, more money is issued, until we arrive at a gold premium of $33\frac{1}{3}$, with the result :

Exports, ...	$33\frac{1}{3}\%$ at $66\frac{2}{3}$	= 222.22
Imports, ...	$33\frac{1}{3}\%$ at $133\frac{1}{3}$	= 444.45
Local products for local use, {	$16\frac{2}{3}\%$ at $66\frac{2}{3}$	= 111.11
	$16\frac{2}{3}\%$ at $133\frac{1}{3}$	= 222.22
		1,000.00

The relation of prices is now exactly the same as it would be under a gold currency, for a reduction in the price of exports of 50% in gold prices with unchanging prices of manufactures means that it requires twice the quantity of raw material and food stuffs to purchase a given quantity of manufactures as before, and to obtain $66\frac{2}{3}$, while $133\frac{1}{3}$ has to be paid, means exactly the same thing.

I come now to

3. The prices of exports have remained stationary, and the prices of imports have gone down. There would be an increase of importation which forces down the general price level, and brings out more money, until prices all round have risen higher than those of the world's market, with a corresponding gold premium which handicaps importations, while it gives a protection to the domestic manufacturer, and also stimulates the production of raw materials and food stuffs, so that the balance soon will be more favourable.

4. Prices of imports rise, while those of exports remain stationary. The higher prices of imports cannot force up those of domestic manufactures, because the average price standard is now raised, and a restriction of the money circulation takes place. As the unaltered foreign prices obtained for produce prevent these from going down, the whole of the price reduction resulting from the restriction falls on domestic manufactures, as it is not generally in our power to force down the price of imports. Thus domestic goods become cheaper than imports, and the latter decrease, to the benefit of our balance of trade and general prosperity. There would be no gold premium in this case, unless our unfavourable financial balance brought it on, in

which case imports would be still more handicapped to the benefit of local manufactures.

Restriction of Paper Circulation only meant in a Relative Sense

When I mention restriction, I wish it to be well understood that I use the word in a relative, not absolute, sense. In fact, a relative restriction does not in the least interfere with an absolute increase of the money circulation. Restriction in such a case signifies a lowering in the rate of increase. That an increase can take place without affecting the value of money is illustrated by the case of Brazil, given in the report of the Committee on Indian Currency, of 1893 (par. 92):

“The case of Brazil is perhaps the most remarkable of all, as showing that a paper currency without a metallic basis, if the credit of the country is good, can be maintained at a high and fairly steady exchange; although it is absolutely inconvertible, and has been increased by the act of the Government out of all proportion to the growth of population and of its foreign trade. The case, it need hardly be said, is not quoted as a precedent which is desirable to follow. The Brazilian standard is the mil reis, the par gold of which is 27d. A certain number were coined, but have long since left the country, and the currency is, and has since 1864 been, inconvertible paper. The inconvertible paper was more than doubled between 1865 and 1888, but the exchange was about the same at the two periods, and very little below par or 27d.”

When we come to the chapter on “Banking,” I shall try to show how little remarkable such a case is, and how far more than a doubling of our New Zealand money would have to take place before a depreciation of our currency would result, or even before the appreciation would stop.

I shall give a special chapter to the discussion of the much-ventilated problem of our tariff policy, so as to find out whether we might not hasten the arrival of the happy time which will see us pay our way without running deeper into debt, by going in either for free trade or for protection.

A few concluding remarks are, however, necessary before I can close the present chapter. The question will be asked whether

Our Colonies have the Power to make such far-reaching Changes

as those here proposed. The Coinage Act, 1870 (Imperial), consolidates the whole coinage law, and perpetuates Peel's law of 1816-1819, establishing the gold standard. This law is applicable to all British possessions, including, of course, New Zealand, but it contains a provision (sec. 4), in the following words:

"Nothing contained in this Act shall prevent any paper currency which, under any Act or otherwise, is a legal tender from being a legal tender."

So that there is nothing, even in that Act, to prevent New Zealand having its own legal tender currency, because the Act contemplates it. Till a colony has its own special currency, however, all its pecuniary contracts within the Empire are payable in sovereigns, unless there be an express stipulation to the contrary.

Another question I have sometimes met refers to the apparently strange fact that so many

Paper Money Countries make all possible Efforts to come back to a Gold Currency

Russia and Austria, for instance, while India, after first stopping free coinage for silver, is preparing for a gold coinage. I begin with India, by reprinting an article I contributed to the *New Zealand Times* of Wellington, in 1899, and which will be better understood when we refer to the quotation from J. Shield Nicholson (p. 245):

A Great Crime

The People of India in Danger.—One of the most horrible crimes is in contemplation, if the papers give us a correct

report. The introduction of the gold standard is intended for India. A famine taking off fifty million people, an inundation devastating half the country, a pest decimating the population, would not be half as disastrous in their consequences as this dastardly outrage, if it should really be carried out. It would increase ten-fold the crushing load which the usurer piles on the miserable ryots. Stopping the free coinage of the silver rupee had already fatal results, as any restriction of currency, of the life-blood of commerce, is bound to have. Making gold the exclusive tender for all payments, taxes included, would infinitely increase the sufferings of the Indian population. All the oppressive acts combined of their Moguls would not have hurt them so much as this one act of British legislation, if it should come to pass. If we ask how such things are possible, we have not far to seek. A little passage taken from Rudyard Kipling's "Story of the Gadbys" speaks volumes:

"DOONE. 'I fancy I see myself taking a wife on these terms.'

"MAKESY. 'With the rupee at one and sixpence! The little Doones would be little Dehra Doones, with a fine Mussoorie accent to bring home for the holidays.'

"DOONE. 'Yes, it is an enchanting prospect. By the way, the rupee hasn't done falling yet. The time will come when we shall think ourselves lucky if we only lose half our pay!'

"CURTISS. 'Surely a third's loss enough. Who gains by the arrangement? That's what I want to know.'

"BLAYNE. 'The silver question! I'm going to bed if you begin squabbling.'"

There you are. The pay of the dominant class loses in purchasing power at home or for home goods, and therefore silver must be demonetised. The ryot does not notice that the rupee is only one and sixpence (now one and fourpence). His rupees buy as much of the local products as before, and his wages do not increase, or anyhow, the difference in both is not very great. It is the dominant class that loses when taxes—though they weigh as heavily as before on the natives—have been considerably reduced when measured in English money, which means that the tribute taken by the conqueror does not yield as much as before. The law-giving caste sees only the tribute

and its purchasing power at home. Salaries and pensions became more and more reduced as silver went down, and so silver has to go, gold has to take its place, never mind what the effects on the welfare of the people will be.

And not only the people of India; the effects will be felt all over the world, and worse in countries which are as poor in gold wealth as New Zealand. It is estimated that a gold currency in India would absorb one hundred million pounds sterling of gold. The estimate is certainly not exaggerated, for it only gives seven shillings and sixpence per head of population, whereas in England we can count about four pounds per head. It would estimate the Indian circulation of gold at only one-eleventh of the English, and it will hardly be less. Well, a hundred millions are over one-tenth of the present gold stock of the world, which is becoming more insufficient from year to year, because debts are increasing much faster than the gold stock does through mining and dredging. The result must be that our financial miseries will become much heavier, not only to the amount of one-tenth, as the arithmetical relation would seem to indicate, but in a much greater measure, because every pound of gold has to serve as a foundation for a credit money superstructure about twenty to thirty times as high.

Subtracting one-tenth of the base increases so much the over-weight of the superstructure that the overhanging part projects too far away from the centre, and the whole building comes down with a crash. Those parts of the building which are already most over-weighted will fall first, and for this reason the Indian currency question is of overpowering interest for New Zealand. In India it is a question between the governing and the lower classes. In the rest of the world it means the increasing domination of capital over labour.

The influential creditor classes and the salaried officials of the State are under the impression that they gain by currency appreciations, though the final effect of our gold mania must bring ruin to all classes by shaking the very foundations of society. And, let us ask,

Who are the Men whose Judgment usually prevails in such Matters?

The statesman? I do not wish to estimate him as low as Adam Smith did when he spoke of him as "that insidious and crafty animal, vulgarly called a statesman, or politician, whose councils are directed by the momentary fluctuations of affairs." ("Wealth of Nations," Book IV., Chapter II.) But I must agree with Buckle when he expresses his opinion of the rulers of a country: "Such men are at best only the creatures of the age, never its creators. Their measures are the result of social progress, not the cause of it." ("History of Civilisation," Vol. I., Chapter V.)

Under party government the statesmen are supposed to represent the opinion of their party, and in money questions the state of things which the historian Douglas found existing in the paper-money period of New England, and also in the French Revolution, still obtains all over the world. "Parties," he said, "were no longer Whigs and Tories, but creditors and debtors."

The bankers and financiers? My personal experience of this class—of whom I have known quite a number during my seven years of banking experience, some of them being near relations—has taught me that these very bankers and financiers are of all men in the world least capable of pronouncing a correct judgment on the great currency problem. They cannot see the forest for the trees. One of my uncles—the well-known chief of a renowned bank, whom the French Minister of Finance, Puyier-Quertier, called in council to have his advice as to the settlement of the German War indemnity—to the best of my knowledge, never read a single book on political economy. Of course, the knowledge of such practical specialists is often worth more than that of any professor, but only as far as their routine business goes. Any move outside, and they lose their way entirely. This would not matter so much if they suspected how little they really know of principles on which their whole life-work has been built up, and if they did not confidently pronounce as experts upon such questions. And the opinion of such men determines the fate of nations! Not that I blame them.

The Routine Groove

It is very likely that if I had continued in the banking line for the balance of my days, I should know just as little about banking as most of our bankers do. Routine would have done its usual task of excavating its deep groove into my brain roads, out of which my thoughts could just as little emerge as a cart can turn in some of our New Zealand clay-road ruts. It is much easier to make headway on never-trodden soil than in such deep grooves. No wonder, therefore, that some of our most important inventions, discoveries, and reforms have been made by non-professionals. No tailor could ever have invented the sewing-machine. The idea of putting the slit of a needle near its point would never have occurred to men who, throughout their whole lives, threaded their little instrument at its other end. The teacher, Rowland Hill, forced through the penny postage against the opposition of England's Postmaster-General; and when we go through the whole history of the zone tariff in Hungary, Austria, and Russia, when we peruse the names of Brandon, Galt, Perrot, Vaile, Engel, and Hertzka, we do not find a single man who ever had anything to do with railroad administration or management. It was not a telegraphist, but a poor school teacher, who invented the telephone, and a professor who perfected it. Arkwright, a barber, not a spinner, invented the celebrated spinning-frame. I remember that when I saw glass-blowing for the first time, about thirty years ago, I asked the foreman why compressed hot air was not substituted for human lungs. He smilingly condescended to explain to the ignorant layman that only in this way could the necessary pressure be adjusted. Now the work is done by compressed air to a large extent, and if there had been only two men on whom the world had to depend for an improvement of the process—the experienced foreman who from boyhood had seen the work done in the old way, and the ignorant new-comer who never had seen it done at all, the chances were certainly in favour of the latter.

I need not add another word in reply to the conclusions drawn from the conversion of Russia, Austria, and India,

unless it be a reference to the follow-my-leader habit of so many animals—

A dangerous Habit

if practised in the special domain we are prospecting in this chapter. If anywhere, "the devil takes the hindmost" risk applies here. Just as those nations which waited too long in parting with their silver, after Germany had begun to sell her own stock, had to, or will have to, submit to great losses, so when once the demonetisation of gold begins—as Gesell points out—the most conservative States will be the greatest sufferers. I am afraid that Britain will be the country most likely to find herself among the last gold-bugs. There is strong hope for New Zealand, though, if we are allowed to give a wider signification to the words pronounced by her Premier during the last sitting of the Parliament of 1900: "I am looking forward to using State paper, and that before very long, for paying State claims with."

CHAPTER V

FREE TRADE OR PROTECTION

Favourable Balance Primary Object

THIS part of the work has been much facilitated by the exposure of the dangerous fallacy contained in the proposition that commodities are paid for with commodities. Payment for importations can be, and often is, made with property titles of different sorts, which have the power in common of conferring the right to claim money tributes from the country or its citizen by whom the titles are signed — tributes going under the names of interest, rent, royalties, profits, dividends, etc. By recognising this we have found that passive balances of trade are slavery chains, which become heavier from year to year through the terrible force of compound interest; unless the passive trade balance is compensated by an active financial balance, as in the case of England, where the trade balance is very passive, and the financial balance very active, in consequence of tribute dues which have arisen during long years of active trade balances. A continuation of uncompensated passive trade balances must in the end as surely ruin a nation as a continued excess of spendings over income must ruin an individual. Even an active trade balance, if, as in New Zealand, the financial balance continues passive, may stave off ruin, just as little as an excess of sales over purchases can save a merchant, so long as his profits do not suffice to pay his yearly rent and interest dues and other expenses.

Even nations with active financial but passive trade balances, such as England, would be better off still if their trade balances were active or less passive, in the same way in which individuals prosper financially by not spending their incomes.

The self-evident conclusion from the foregoing leaves the choice between free trade and protection simply dependent on their prospective influence on the balance of trade.

Narrowing down the Subject

Every other aspect of the question must be relegated to the background. "To be or not to be (free of debt), that is the question," a question of as ominous import in the case of a nation as of an individual; for debt, payable in a non-obtainable commodity, growing from year to year through interest tribute, is a load with which human ingenuity in vain grapples, which giant labour's powerful muscles cannot lift.

Such narrowing down to the economic aspect only is not unaccompanied by pain on my part, especially as the process is not limited to this particular division of the great social problem. My readers may well believe me that the ethical side of this problem, and of every single part of it discussed in this book, appeals to me with as much force as to any of them. The great ideal of free trade among nations, the levelling of frontier barriers, free intercourse gradually leading to a reign of universal peace and brotherhood, where men are co-operating on the principle of the golden rule, are dreams gleaming as vividly before my spiritual eyes, are hopes as ardently cherished in my innermost heart as they are in that of a different class of writers, whose works will delight yet unborn generations. I cannot vie with their fertile brush when it paints us the picture of the wonderful palace of humanity's future. But the most beautiful castle on canvas cannot give us shelter when a storm is brewing; even the humblest but real cottage is preferable. Sawing and fitting timber, hewing rough stones, laying bricks, handling mortar, certainly do not need as rare gifts as those with which great poets are endowed; but for all that, the work of the carpenter, the stone-cutter, the bricklayer, and the mason are urgently required. Feeling that the great Architect of the universe has with a purpose apprenticed me to the humbler crafts, I try to do the special work required of me. Whoever expects me to appeal to brotherly love in these pages, to justice and charity; whoever waits for solemn adjuration to bow to the divine command enjoining us to lead a less selfish and mercenary life,

will wait in vain. All I want to do in this book of mine is to clearly point out what improvements in our economic system are not only necessary and urgently demanded, but for which of them we are so far prepared that the practical statesman can dare to begin work on them. I want to analyse our errors, and to prove how they can be remedied: by simple legal enactments, or voluntary organisations, without any revolutionary tendency; by a system of gradual evolution appealing even to the most timid of men. Wherever I propose a measure, I do not try to show how it will promote the highest virtues, how it will make a demand on our self-denial and sacrifices; but, on the contrary, I only prove that our enlightened self-interest will thus best be served, and only on the success of this demonstration do I place my expectation of final victory. In a work of this character the theoretical question, whether universal free trade be desirable or not, necessarily must be subordinated to the practical one whether the free opening of its frontier is the best policy for a country to pursue, even if there is no

Certainty of Reciprocity

and this question I most emphatically answer in the negative. Even Old England, for half a century under the spell of Smithism and Cobdenism, begins to perceive that persistence in a free trade policy, independent of any response on the part of other nations, is not always conducive to good results. The changes in the tariff made by her present parliament are mostly made with a view to revenue, and certainly do not show any pronounced tendency towards protectionism; but "*Il n'y a que le premier pas qui coûte*," and the Rubicon has been passed. It is all very well for the wolf to preach to the sheep that the free right of mutually devouring each other is one of the most sacred adjuncts of free individualism among animals, as long as the case only lies between him and the sheep, for he well knows that, though cases where wolves have devoured sheep have been reported in this world of ours, nobody ever heard of sheep making a meal of wolf-flesh. The case begins to change, however, when a tiger appears on the scene, who occasionally, when he cannot find anything more appetising, indulges in a

little wolf-flesh. The right of mutual devouring now begins to be proclaimed somewhat less loudly than before.

As long as England—through the start which her position, her natural resources, and the temporary weakness of her commercial rivals had given her—could undersell the whole world, the gospel of Cobdenism was preached with all the zeal of the convert who wanted to preserve other people from the bad habits out of which she had just emerged, and which (as we may say in parenthesis) had done her a lot of good. But, unfortunately for her, others, seeing her former success, had chosen to rather profit by the example of her past mode of life, through which she had acquired such enormous strength in a time of general debility. They thought that they, too, while yet in a poor state of industrial health, might try the baby food which has so successfully been used by their powerful rival, until they had gained a little more strength, until they had gradually grown out of the sheep's feeble frame, until strong teeth and claws had made their appearance, so that it almost looked as if the sheep had changed into a ferocious tiger. When the United States and Germany had grown so strong in the nursery Protection that they began to undersell the old giant in his own market, the case began to show quite different features under such unwonted conditions. As J. Buckingham, in "The Curse of Cobden, or John Bull v. John Bright," correctly says: "It is hardly to be expected that foreigners, who did not copy England at the time of her prosperity, will do so now in the time of retrogression."

We shall now investigate the

Arguments on the side of Free Trade.

I. Protection gives a *monopoly to the local producer* by freeing him from the foreigner's competition, and thus enables him to *extort higher prices* from the consumer. A *bounty* given by the State to the local producer to enable him to bear up against foreign competition would cost the people less than to raise prices through a protective tariff, especially as the middlemen add their profits to the duty, and thus further increase the cost of the goods to the consumer.

Again and again we hear our New Zealand farmers complain

against the high prices they have to pay for the products of industry, to the benefit of trades unionists and their employers, while they are unable to obtain a single penny more for their wool and meat. Perhaps better prices might even be realised for their produce if the English consumer were freed from the trammels we put upon the sale of the products with which he pays for our food and raw materials. In the same way, the English manufacturer rebelled against the protection of the farmer by corn laws, which raised the cost of living, and consequently of manufactures.

This is certainly a powerful indictment against protection, and, unless a good defence can be brought forth, an important point has been scored on the side of free trade. Let us now see what the other side has to say in defence.

Employment the first Question

There is an Irish saying: "In old Ireland you can buy a bushel of potatoes for sixpence, but the difficulty is to get the sixpence." The question of cheapness or dearth comes next to that of employment. Our example of John the tailor, and Bill the cabinet-maker, has shown us that there are cases where the dearer price is by far the cheaper; because, in consequence of the addition to the price, two producers found employment, and thus became consumers of each other's goods, the very source of their employment. We have seen that if cheaper coats and cheaper chairs had been imported, neither of the two men could have obtained what he wanted, because he had no money to buy it with; whereas the exclusion of the imported cheap goods enabled both to go to work, and to buy what they needed. The price they paid was immaterial, because, in reality, each paid the other with his labour.

We have also seen that imports do not necessarily bring corresponding exports in their train, for, as a rule, buyers never investigate which country is their own's best customer, but which goods are cheaper and better. But how does the case of John and Bill, two artisans trading with each other, affect

The Farmer's Case ?

How about the higher prices he is forced to pay for his industrial products ? Why should he pay more for his boots and clothing without obtaining more for his wool and meat ?

The Case of the American Secessionists

A great grievance, no doubt, and one which almost brought about the secession of the Southern States of the American Union from the North. It is well known that the peculiar institution of slavery supplied only the ready fire-brand which kindled the war, while the real cause of dissatisfaction with the Union originated in trade grievances. The cotton and sugar planters of the South saw no reason why they should pay the Yankees much higher prices for manufactures than they would have paid to Europeans if the high protective duties imposed in favour of the Northern manufacturers were done away with. It was an extortion to which they would not submit any longer, and the question of the new territories' right to keep slaves merely ignited the material more than ready for combustion. In one way, however, it was an exceptional position that could not be paralleled anywhere in the world. Nowhere was there such a sharp sectional separation in the same country between two great branches of human industry, between agriculture and manufacture. But even here the last three decades have amply proved that the real and lasting interests of the South were better served by a maintenance of the Union, though only considered from the one-sided vantage point of trade. The opening of the far West, the immense increase of population in the Northern and Western States, ensured a large home market for the cotton and sugar of the South, which can never be closed by foreign interference, and which has gradually assumed an importance not dreamt of in 1860. In 1897, 61 million dollars' worth of cotton were sold within the country, half as much as the average exports of cotton from 1851 to 1860 amounted to. The time cannot be very far distant when the home trade of the country will be a better customer for the cotton planters than all foreign markets combined had been before the secession

war. Here no tariff can shut them out, such as may some day differentiate between American cotton and that raised in the colonies of the industrial States of Europe. No foreign fleet can interfere with the shipment in case of a war. No cheaper produce may take the place of American produce in the way in which German beet sugar closed the market against American cane sugar, so that the whole exportation of the States of all kinds of sugar—glucose and molasses—in June, 1898, amounted only to about five million dollars; when, as far back as 1868, in spite of the disturbances brought about by the war, the export figures of cane sugar alone amounted to sixty million dollars. Now pretty well the whole of the sugar production of almost 300,000 tons is sold within the country. Under secession the North and West would have consumed German beet sugar paid with American products of industry, and the Southern planter would have had to close his sugar mills.

But another phase has come in lately, totally unexpected forty years ago. West Virginia and Alabama's coal and iron mines have opened a vista of unlimited industrial developments. It is said that almost nowhere in the world can iron be produced under more favourable conditions, and the proximity of the raw material, as well as the milder climate, promise a great future to the Southern cotton manufactures, for which not only the North and West immediately offer a large and paying market—which might have been cut off by a protective tariff if secession had been successful—but the Union has begun to export cotton goods to the amount of 17 million dollars for 1897-98. I leave out of consideration the many other advantages of union, and all the dangers and troubles inseparable from secession, principally the long boundary line watched by custom-house officials, and the standing armies defending each section against the other, as in the South American Republics, with the permanent danger of destructive wars. I have simply shown that even here—where everything spoke in favour of Southern liberation from Northern protectionism—the final result has been a benefit also to the agricultural portion of the entire Union through the industrial development of the North and West.

The Case of New Zealand

But such sectional divisions are not found in our own country, with its relatively large number of industrial cities and towns dispersed over the whole length of the islands. Here the interchange between town and country, between the farm and the factory, is by far more intimate than between the two large sections of the American Republic. Our industrial workers consume a certain portion of the farmer's product, and certainly the best paying portion; for fruit, vegetables, potatoes, milk, fowls, etc., pay better than wool and wheat. Frozen meat sent to England does not yield as much as fresh meat eaten locally, nor are the same prices realised for exported butter as for the fresh butter sold in the local market. But even assuming that for a time the farmers would save money if the tariff were abolished, because the savings through cheaper prices of imported goods exceed the profits made through the consumption due to local industries, plus the contribution to the public expenses made by the Customs' revenue—would such abolition be a wise policy in view of the near future? It is generally recognised that no nation can prosper through exclusively developing her agricultural resources, leaving the industrial domain uncultivated. Poland has exhibited the fate of such a nation. Her selfish rural aristocracy found it paid better to ship their produce to foreign markets and to buy with it foreign manufactures, instead of—by temporary sacrifices—nursing a home industry which supported a free middle class, whose sturdy arms would have been better able than the miserable serfs to defend her in the days of danger; whose intelligence would have preserved her from the decadence which made her Government a by-word in the whole world. Just as a father, instead of spending his substance, puts something aside for his progeny, and so for his own future, so a nation nursing industries provides for the day to come. Only in this way, only through a mixed population, through the intellectual, physical, and commercial intercourse of country and town can we obtain that full development of a nation's resources without which she is bound to remain behind in the struggle of life.

Utilisation of Natural Resources rendered possible

Mighty rivers descend from the mountains to the sea, and nobody makes use of their immense power to turn millions of busy wheels in the humming hives of industry. The coal which could set into motion millions of horse powers; the iron which could take the thousands of shapes that man's inventive spirit is capable of giving it, which is ready to serve in the rail on which the fast locomotive winds its way from one end of the country to the other; in the bridges that span chasms and rivers; in the wires keeping the farmer's cattle from roaming about; in the shape of engines with the power of millions of men, or of machines performing the most delicate work in industry's domain—these and other treasures remain unused in the bowels of the earth. Of all the metals—leaving trifling exploitations out of account—the yellow fetish, Gold, alone is dug and washed out, because it alone need not fear underselling in a market whose master it has become by bad human laws. It alone needs no protection against a ruinous competition in the world's trade, as all other goods are pressing forward offering themselves in exchange for it, each trying to tread down the other in the wild race for the scarce substance.

Development of a Higher Humanity

The soil cannot bring forth its best crop: highly cultivated men and women, where it is devoted merely to an extensive system of agriculture, or to cattle and sheep-raising—the occupation of the savage after he emerged out of the hunting and root-eating stage. A country like New Zealand, as a mere sheep and cattle station, a dairy farm and wheat field, would not feed as many thousands of inhabitants as it can hundreds of thousands where agriculture and industry co-operate, each forcing on the other to a higher stage of development.

Increase of Land Values

Where ten pounds was the highest selling price and ten shillings the utmost rent obtainable for an acre of land used only by sheep, large sums are in vain offered for the single square foot of the industrious city. Where a crushing taxation could not pay for the most necessary means of communication to bring the farmer's produce to market, so that money had to be borrowed abroad, the mere rental of the land could provide amply for all the needs of the State, though she undertakes tasks which the simple cattle-raiser never dreamt of. If the farmer wants to prepare such a future for himself and his children, he must cease nagging at the few pounds more paid for his fencing-wire, clothing and furniture. The account will be amply made good some day or other. At the close of the chapter I shall illustrate the relative position of the farmer and the manufacturer by transferring the case to the simple relations of Robinson's island. Here I only add a quotation from R. E. Thompson's "Political Economy": "It (protection) promotes association between members of the same nation by producing variety in their employments; while free trade between more and less advanced nations always has resulted in the destruction of association among the people of the less advanced, and in their reduction to monotony of occupation."

Independence

There is another important point of view, however, from which the nursing of local industries recommends itself. Importation is all very well as long as peace reigns, as long as the communications are not interrupted; but woe to the nation which, in conflict, cannot obtain certain necessities of life, because she cannot produce them at such a short notice, while those from whom she used to buy them cannot supply them for the time—an unfortunate and unworthy position, pardonable in a child, but not where a self-dependent man is concerned. It is true this danger is not so great in countries like ours, which grow their own food, and which can manage to exist for some time without the importation of certain manu-

factures, as where the people have to depend on other nations for their daily bread.

The Case of Britain

Certainly Britannia still rules the waves; but will she always do it? A single invention, the armour-plating of warships, reduced the world's wooden fortresses to worthless playthings—as the *Merrimac* proved to the United States' fleet in the waters of the Chesapeake—and in the next naval war a perfect submarine boat may in the same manner supply the proof that all our floating colossi are at the mercy of a few invisible dwarfs, surreptitiously creeping under their immense bellies to blow them out of existence, just as a pigmy may kill a giant. What then? Who will feed England's millions when cheap American wheat will have driven out of cultivation the last acre of the remaining 24% of English soil yet under tillage, and when foreign granaries are kept from bringing in their welcome loads by hostile armaments?

England's landed Aristocracy, with its rent-raising Corn Tolls,

in a time of poor means of communication, when no competition of foreign wheat threatened to throw English fields out of cultivation, has been justly punished by the complete downfall of their system. Even in our time, all who realise the wrong of private land ownership must find it hard to contemplate the rise in rental values which is sure to follow any attempt to restrain the importation of corn. Of course, land restoration would entirely do away with this difficulty by giving back to the people in the shape of the State's rental income what they pay on account of corn duties; but in the meantime, if landlords have to be enriched, let England enrich her own rather than those of America, since in that way most of the money will be spent in the country, paying its taxes and supporting its producers. It has become a question of serious concern to England whether the present freedom of importation is to continue unchecked. None of the powerful arguments brought forth in Cobden's time applies to a period when, at the price

of imported wheat, the cultivation of the cereal is frequently unprofitable, even on land given rent free.

The dear Loaf?

It has been calculated that the mere saving which municipal or co-operative bakeries would produce by eliminating the wasteful little concerns would more than balance the addition to cost incurred by a corn toll big enough to exclude foreign importations. D. Till, the owner of a flour mill and a bakery in Bruck a. d. Muhr, Austria, has written a number of pamphlets advocating the municipalisation of bread production. From one of them, "Die Umwandlung des Getreides in Brod," "The Transformation of Corn into Bread" (Graz, 1894), I take that the new system he advocates, besides giving a healthier bread, free from the danger of contagion due to the diseases of the workers at present employed in unhealthy dens, under the most unhygienic conditions, could save 9 florins in cost of production for every 100 kilo of flour baked into bread. This gives a saving of £7 10s. per ton of flour. As 82 kilo of flour correspond to 100 kilo of wheat—leaving the value of the bran out of sight altogether—we find that a duty of £6 3s. per ton could be paid on wheat without increasing the present price of bread. The price of wheat, therefore, could be almost trebled without raising that of bread, if we make up the difference by improved methods of production and distribution for the finished article.

Quite apart from the important consideration of a food supply in the case of war, I feel certain that England has not been well inspired in adhering to

Cobden's Policy of 1846 under the totally changed Conditions of 1900.

Under the protective policy of the United States, the disproportion between England's export to that country and its imports from there has been growing continually in favour of the United States. The exports have only grown from 17 million pounds in 1854 to 21 millions in 1897-98, while the imports from the United States have gradually increased from 30 millions in 1854—falling as low as 18 millions in 1864 because

of the locked-up cotton and sugar from the South—to 106 millions in 1897-98. I feel certain that England's strict adherence to the principles of 1846 is mostly responsible for this almost seven-fold increase of her passive balance in her trade with the Union. If England had adopted the protective policy of the principal continental nations of Europe, if she had raised the duties on American corn in the same proportion in which the United States raised their tariffs on English goods, these tariffs would never have come into action, or would soon have been reconsidered. England is America's best customer, and the American farmer's vote would have settled American exclusiveness very rapidly.

America, through her protective policy, made herself more and more independent of British importations. Why should not Britain follow the lead of Germany and France, and try to make herself independent of American importations? It is true that England has yearly interest and rent dues abroad which are paid in importations; or rather, strictly speaking, it is not England which has these dues, but a number of prosperous English men and women, who indirectly spend their money in the countries where their income comes from by having its produce imported. This may be only fair, but does not in the least benefit the poor English worker, who is only too anxious to produce these good things for them by his own labour, and who, in consequence of this foreign importation for which no English goods are exchanged, is without employment. The *Forum* of June, 1901, contains an article by John P. Young:

"An American View of the British Industrial Situation"

in which, among other interesting data, the following facts are given: The consumption of raw silk in Great Britain rose from £2,400,000 in 1823 to £10,750,000 in 1857. The value of silk fabrics in the latter year amounted to £21,500,000. In 1898, the result of free trade was shown in a falling off of raw silk importation to £2,138,912, an importation of silk goods to the amount of about £16,000,000—minus re-exports—against an exportation of £2,400,000. "It (the British silk industry) was needlessly sacrificed to a theory," says Young.

In the United States, protection of an infant industry has brought about the magnificent result that from importing every single particle of silk goods the astounding fact has evolved that the United States' silk textiles manufacture now is in excess of the manufactures of France, and that every portion of it is consumed in the country. It is true the prices are higher than in England, but what does that matter if people are thus employed who could find no other work? Their immigration has benefited the country far more than the trifling addition to price can have done harm. The large amount of this production, which is consumed by the working classes, shows a state of well-being quite in accordance with the theory that the possession of a paying home market ensures a better living to the masses, in spite of higher prices, than lack of employment accompanied by and caused through cheap prices. "Potatoes only cost sixpence a bushel, but the difficulty is to get the sixpence."

It has been argued that

Bounties are preferable to Protective Duties,

because the latter act as indirect taxes which fall proportionately heavier on the poor than on the rich, especially as the additions of importers and other middlemen largely raise the original cost. I concede that there may be cases where a bounty for a time would be preferable to a duty on imports, as, for instance, where certain domestic manufactures are as yet too insignificant to render a raising of the price advisable for the sake of finding employment for a few men. It would sometimes pay better to feed such men at the expense of the community than to raise the price of the goods they produce to an amount far exceeding the wages they earn. As a rule, however, protective duties will prove more beneficial than bounties ; because the

Duties, or part of them, are often paid by the Foreign Importer,

whereas bounties are always at the charge of the domestic tax-payer.

Our modern system of manufacturing is remunerative only if large quantities are produced, and if work goes on at full time.

Saving by Increase of Turnover

Let us assume that a special machine, which does the work of a dozen workers employed on inferior machines, costs £1,000, and is worked by one single hand. Now let us figure cost of production with such a machine, worked continuously in three shifts of 8 hours each, or by one hand working only 8 of the 24 hours. Interest and depreciation (not through wear and tear only, but mostly through the certainty that before the machine is ten years in use an improved model comes in which forces the manufacturer to discard the old one) are the same in either case, at 15% = £150 a year. Nor are general expenses notably higher, whether a machine is used during 8 or 24 hours; for not a single manager, book-keeper, salesman, messenger, etc., is added to the staff for the extra work. The interest on the building amounts to the same, whether the factory works full or half, and the motive power does not cost correspondingly more. In the case of water power, the extra work costs practically nothing, as the water runs away unused wherever it is not fully employed, without any notable saving in its cost for the working hours. In my own factory, it would many a day have cost me much less to run night and day than to rest at night in hard winters, when standing still caused the turbines to freeze, while the motion kept the ice from forming. Let us in this way put down the quota of general expenses falling on the machine, which cannot be saved by working less time, at another £150 a year. The raw material used on the machine per 8 hours' work amounts to £1; special expenses and the wages of a man for one shift, 10 shillings. In this case the cost of the finished article, if only 8 hours a-day are worked, figures up to £750 for one year's production per machine. The manufacturer adds 20% profit, and sells at £900.

Now let us figure on the supposition that three shifts are kept at work during the 24 hours, so that three-fold the quantity is produced during the year. Cost of unchanging items: machine and general expenses is £300 as before; while wages, materials, and special expenses have to be trebled = £1,350. Adding the £300, we obtain £1,650 as the cost of the total quantity; or one-third = £550, as the cost of the same quantity which before

has cost £750. By now adding 20%, the product can be sold for £660, which before could not be supplied at less than £900, and yet the total of yearly profits per machine has risen to £330 from £150—has more than doubled. Now, let us suppose that full employment for the machines is only possible if a certain foreign market can be kept open, which, up to that time, had freely admitted the article, but which now puts on a protective duty of 30%. Let us further suppose that one-third of the output had been shipped to that foreign country, while two-thirds were sold in the domestic market, and that the price of £900 has been maintained, the manufacturer pocketing the entire extra profit made through the cheapening of cost in consequence of working day and night. Before the duty he cleared in this way £1,050 per machine and year; but now he can only compete in the foreign country if he pays the duty out of his own pocket. Leaving aside what he might gain by under-declaration, he would have to sacrifice £270 of his profits; which would leave him only £780 per year and machine. If he gave up the export he would only clear £600, as by working only 16 hours a-day cost is £1,200 per day and machine. Thus, in spite of paying out of his pocket as much as 30% duty on his selling price, he made £180 more per year and machine than if he had given up the exportation of his surplus. If, to kill competition in the foreign market, he chooses to forego this extra profit made through the exported goods, he can sell in the foreign market for £642 less 30% duty = £450 net, what before the duty has been sold at £900. This means he can sell at half price, and still make the same yearly profit on each machine as if he only worked for the domestic market.

J. Buckingham says, in "The Curse of Cobden" (p. 13): "Every tyro in business is aware that the cost of producing the extra quantity is insignificant as compared with the cost of the original or smaller production. For instance, newspapers can be sold at a penny to leave a large profit; but if you limit the markets, and reduce the sale sufficiently, probably a selling price of five shillings would entail loss." When Mr. Young says: "They (the Americans) learned the bitter lesson that the surplus, when dumped on the domestic market, fixes the price without reference to the cost of product"—meaning the surplus of the foreign manufacturer—he does not know how low-down

this price can be fixed, and still keep within cost limits, merely by permitting production on a larger scale, and consequently cheaper cost.

Selling with Loss to kill Competition

But it pays even to go below these limits if necessary, and Young quotes the teachings of a noted British statesman as far back as 1815 to prove England's familiarity with a practice so often used by the American Trusts against domestic or foreign competitors: "Lord Brougham, in 1815, urged that it would be worth the while of British manufacturers and merchants to incur loss upon the first exportation, in order, by the glut, to stifle in the cradle those rising manufacturers in the United States which the war has forced into existence contrary to the natural course of things."

List, in speaking of the time when, after the downthrow of Napoleon, the continental system came to an end, says: "In the year 1814 alone, 21,654,000 thalers' ($3\frac{1}{4}$ million pounds) worth of English cotton goods were imported into Germany. The English goods went off at ruinous prices; but what mattered temporary losses when a permanent market was to be gained and a practical monopoly could be founded—a policy which England then employed neither for the first nor for the last time. The German industry, which just began to recover from the war times, could not stand this competition, 'and,' as Weber says, 'many still sound remainders of the former German industries, which had not succumbed to the influence of twenty years' destructive wars, thus decayed at this time.'"

Few who are not in business have a conception to what an extent this policy is carried out in our days; and even if no "stifling in the cradle to bring about the natural course of things" (the monopoly of the importer) is practised, anyhow a market is kept open which otherwise would be closed. As Young says: "The opinion of J. Stephen Jeans in *Engineering*, that the effect of organisation is 'to make the home business so profitable that manufacturers can afford, if necessary, to lose on export orders,' and thereby build up trade, and keep their manufacturing establishments and their working men fully

employed, is now accepted by a great majority of those who control affairs in the United States and Germany."

We now come to another free trade argument :

2. Protection handicaps Foreign Trade

Protective duties on imported goods handicap the producers of the protective country in their foreign trade by increasing the cost of goods. Again the foreign soup tureen and the neglect of the domestic one ; again the total disregard of the immense latent purchasing power of the home market, and the unreliability of foreign trade. Young very correctly points out how

"Self-Sufficiency "

has become the order of the day, and this is true even of states generally looked at as good dumping-grounds for the surplus production of the industrial nations. One after another of the countries looked at as merely agricultural begins to nurse industries of its own ; one of them, the United States, has even become the most powerful rival of the manufacturing countries. The idea of becoming

The World's Workshop

is all very well ; but two are necessary for a marriage, and a workshop cannot exist without customers. Cobden's world's workshop loses one customer after another, and, what is much worse, finds its own domestic market invaded from all sides. It is interesting to run through England's imports to find how manufactures which formerly used to be its own specialty—iron and steel manufactures, for instance—are imported into her market by Germany¹ and America, through the blind

¹ "The Curse of Cobden, or John Bull v. John Bright," by J. Buckingham, and the well-known book, "Made in Germany," by E. E. Williams, show clearly how unreciprocated free trade has become unfair trade for the doctrinarian country. Buckingham says : "Free trade is a misnomer ; it ought to be *Free Buying*."

adoration of a theory which must ruin the wealthiest nation if followed by her alone. Instead of more and more becoming the dumping-ground of others' surplus, England ought to save for herself her own market. Were she to use at home and in her colonies half the money yearly spent by her on the conquest or protection of foreign trade, she would foster a more important and profitable commerce than all her foreign trade ever has yielded to her.

Applied to New Zealand

If this applies to England, the world's workshop of Cobden's projection, how much more to our islands at a distance of 15,000 miles from Europe, whose first consideration must be independence of markets which a war might temporarily close against them, and which, at the best, are available only under a system of the most frightful economic waste. To us more than to England apply the closing words of Young :

"In conclusion, if anyone thinks it strange that an American protectionist should advise Great Britain to pursue a course, the adoption of which would make it difficult, if not impossible, to market much of the surplus of the manufactured products of the United States, let him bear in mind that the members of the economic school to which the writer belongs firmly believe that the best results can be derived only from a system which reduces waste to a minimum. The greatest of all waste, in the opinion of modern protectionists, is that involved in unnecessary external trading ; therefore they view with equanimity every improvement which tends to bring worker and consumer closer together. To manufacture in Great Britain the things consumed by the British people will have that result : hence they look with favour on a policy which they are assured would bring it about."

If Young sees a "possibility of increasing domestic production to the extent of over a billion annually" in a country which marches in the vanguard of industry, how much more a policy which brings this about should appeal to a poor apprentice nation like ours ! Moreover, a rational protective tariff makes a distinction between goods entering into the production of

other goods, and those which have no influence on our productive facilities. A duty on kid gloves, or on objects of art, for instance, in no way increases the cost of living of our workers. We in New Zealand are fortunate in this respect, for—excepting a few specialities of the tropics—all raw materials and food stuffs could readily be produced in this country as cheaply or more cheaply than anywhere else if we set about the work. Certainly it is mere folly to buy British or American rails and wires when, at Parapara, we have some of the best iron ores in the world, besides Taranaki's wonderful iron sand—both of easy access, and quite proximate to coal and lime. Why should we import clothing from other lands when the wool to make it has first to go there at great cost? Why should we not rather attract the men and women who make this clothing in the transmarine markets? They will then consume amongst us more of our food stuffs than we can now sell to them in their distant homes, besides many other goods; and no foreign competitor could lower the prices of the wool and produce we thus dispose of.

Another argument often given by free traders is that

3. Protection does not raise Wages.

This objection is valid only if it can be proved that free trade does raise wages, which proof is not supplied. In fact, the question what share of the proceeds goes to the employer and what share to the wage-worker lies altogether on another field. In the chapter on "Capitalism," I shall sum up the results of these investigations, and we shall then be able to see more clearly what changes in our existing system are needed to do justice to the claims of labour. Neither protection nor free trade will be found among these changes, or protection only in so far as a nation can legislate against her domestic capitalism, while she has no peaceable remedy against that of other nations except shutting her doors against them. Nor would the fact that protection cannot raise wages any more detract from its merits than the argument against shoes that they cannot be used as food affects their claim to be a useful part of human attire. The question is not whether protection can raise wages, but whether it will permit wages to be paid at all, *whether it*

brings employment where free trade would take it away. So far I have shown that such may be the case. However, we may safely assume that abundance of employment enables the workers to compel higher wages than are obtainable where the blackleg's hunger defeats the striker's energy and perseverance. Where two employers compete for one worker, wages have a better chance of rising than where two workers look out for one employer.

Free Trade Statistics

4. Statistics are brought forth to prove that free trade brings prosperity where a protective policy had the contrary effect. We at the Antipodes are in the habit of thus seeing New South Wales trotted out against Victoria. I shall not attempt to investigate how far the superior natural resources of New South Wales may be the real cause of her more rapid advance, and whether or not protection had anything to do with Victoria's slower progress. Nor do I wish to emphasise the words : " Figures do not lie, but liars write figures." But that we may duly estimate the value of this kind of evidence, let us examine the illustration most frequently employed by free traders, by which they claim to fortify their position beyond all arguments : the statistics showing the wonderful prosperity England has enjoyed since Cobden gained his great victory of 1846.

A certain man suffered severely from gout. Some quack told him to change his walking-stick, because oak was pernicious and ash was salutary in the case of his disease. He changed his walking-stick. About the same time he renounced alcohol, gave up his sedentary habits, took to mountaineering amid the ozone of the upper Alps, and otherwise reformed his mode of life. His gout entirely left him, and ever afterwards he expatiated on the wonderful cure effected by his ashen walking-stick.

Likewise, a flea jumped from a heavily-laden waggon that was stuck in the mud. The horses gave an extra pull at the moment, and the waggon was extricated. To this day the flea proudly tells everybody that his generous help moved the waggon out of the mud. I am afraid too much of this *post hoc*

ergo propter hoc reasoning has been indulged in by economists and statesmen.

Free Traders forget Railroads, Steam Engines, etc.

The change from a protective to a free trade policy has not been the only distinguishing feature of the period in question. It was not exactly the opening of the railroad era; but it marked the time at which railroad construction began to attain unexpected dimensions. Tooke and Newmarch tell us that in 1848 and 1849 alone, 300,000 men were employed on British railroads, gaining bread for 1 million persons. As only 45,000 were permanently employed in running the trains, making repairs, etc., about a quarter of a million men found work through railroad construction; who, from 1846, the year of Cobden's victory, to 1855, inclusive, put into operation 4,985 miles; whereas the total of the whole preceding period had only reached 2,536 miles; so that these ten years had brought the total of miles in operation from 2,536 to 7,521. The capital invested had risen from 65 millions to 240 millions. In the United States, the increase had been from 3,000 miles in 1843 to 24,000 in 1855; and as probably the bulk of the rails came from the United Kingdom, her iron works must have given employment to many thousand additional men. About the same period saw the introduction and rapid extension of telegraphy. The development of steam navigation, and of steam power as a factory motor, surpassed the wildest dreams of the most sanguine.

Here we certainly have some factors of prosperity worth mentioning; but for all that, they supply no positive proof that the immense development of Great Britain's commerce was not produced principally by free trade, just as we have no positive proof that our gouty patient was not cured by the change of walking-stick. If, however, a number of gouty patients became entirely cured after adopting the regime of our friend, although adhering to their oaken sticks, the case against remedy by change of sticks would be decidedly strengthened. An analogous proof regarding the respective influence of free trade and the other factors concerned in the development of British commerce should similarly affect our conclusions. If the

progress of the United Kingdom in the latter half of the nineteenth century has been extraordinary, that of a number of other countries during the same period has been prodigious, considering the immense start enjoyed by the northern islands. When we consider the havoc played by revolutions on destructive wars, and add thereto the handicap against them of Britain's powerful commerce, we are forced to acknowledge that the progress of Germany, Russia, France, Belgium, and the United States within the given period has been relatively greater yet than that of their insular rival.

The fabulous development of Germany is too well known to require any commentary; so I pass on to Russia.

In a recent consular report on Poland it is stated: "In Poland, at the beginning of this century, the only town of any size was Warsaw, with a population of about 50,000; and whereas even in 1877 there were only 15 towns with a population of over 10,000, there are now 32 such towns, whilst the population of Warsaw is over 700,000, and that of Lodz—the manufacturing centre of Russia for textiles—400,000. At the beginning of the century Poland was inhabited by a population of 2,700,000, over 90 per cent. of whom were steeped in ignorance and practically in a state of slavery, being bound to the land they lived on, and obliged to give their labour to the owner thereof. At the end of the century there is a population of nearly 10,000,000, of whom all are free, and over 4,000,000 of whom own over three acres of land, whilst nearly 3,000,000 dwell in towns. In every village and in every factory employing over 1,000 hands there is a school; in Warsaw there are 757 educational establishments, with 47,818 pupils. Great attention is given to primary schools, of which there are over 3,000 in Poland. The production of the country, which was at the beginning of the century in a state of ruin, is now over £80,000,000. Then there were no roads or railways laid down; now there are 4,325 miles of macadamised road and 1,625 miles of railway." This has all been accomplished in "despotic" Russia under protection.

Baxter tells us that from 1842-60 the exports and imports of England rose 254, those of France 169, and those of Belgium 272 per cent.; but even this great progress is put into the shade by the United States of America, whose outside trade increased 305 per cent. within that period. Since then it has been quite

prodigious, having led to a considerable active balance even in manufactures. None of the countries here mentioned had followed a regular free trade policy, and their greatest advance falls into the period when they were most protectionist.

It certainly was so with the United States. R. E. Thompson goes through the history of his country, and proves how it flourished under protection and suffered under relative free trade. How the Dallas tariff, which lasted till 1857, inflicted injuries upon nearly all industries, preventing the influx of capital. "To compensate for this we were to have an unlimited market for bread stuffs, since England had repealed her corn laws. The more we bought of her, the more we must sell her; as 'commodities are paid for with commodities.' The commodity with which we chiefly paid her was gold." The tariff of 1857, reduced by 25%, drove capital from production into speculation, as the tariff before 1842 had done. It is notorious how rapid the country's advance has been since under the M'Kinley and Dingley tariffs, until at last her balance of trade has become active even in manufactures.

If protectionists pointed to these facts as a confirmation of their policy, they might have more justification than their antagonists; the field under observation being much more extensive, and other conditions more at variance. However, definite conclusions could as little be drawn from such facts, independent of better evidence, as could judgment be given for the ash sticks even if all the cured patients had used them. But at least I think we are justified in decidedly rejecting the testimony that British prosperity is due to free trade.

5. Protection enables Domestic Producers to combine

for the purpose of fleecing the consumer. Trusts will be treated in the chapter on "Socialism," and it will be shown that their principal foundation is the monopolisation of natural opportunities and the means of transportation. Certainly protection enables them to defeat foreign interference, but their international organisation has already begun, and under free trade would certainly gain vaster dimensions, so that the consumer would not profit to a large extent. But whether under free trade or under protection, unless natural opportunities and the

means of transportation are monopolised, the consumer has much more powerful means of combination than the producer. The wonderful success of the co-operative movement in distribution (see Chapter IX.) has proved that the consumer who co-operates to produce the things he needs meets with much less difficulty than the producer who co-operates without an assured market. If the co-operating consumer were really determined to defeat combinations of producers, his victory would be certain and easy, provided always that he can command the use of natural opportunities and the means of transportation. If once co-operators will remain faithful to their store, never mind what inducements outsiders may offer, the dodge through which trusts defeat outside competition will be powerless. Systematic underselling at prices below cost until the competitor is ruined, and then adding extra profit to prices so as to make up richly for the temporary sacrifice, is the recognised mode of appropriating other people's business. But such tactics are of no avail where the store can reckon absolutely on its customers, whatever the allurements elsewhere. In supporting their own store co-operators put money into their pockets; for any temporary saving effected through buying the goods of a competitor is soon counterbalanced by higher prices when the rival has been driven out of the market. In Chapter IX. we shall see that the two million British co-operators following such a policy—rendered easier to them by the issue of a co-operative currency, which would also in other ways increase their power—could gradually possess their own farms, mines, quarries, forests, etc., at home and in the colonies, the raw materials of which they would work up in their own factories. Thus they could provide all their necessities of life, producing all they consume, and consuming all they produce; and no trust or other combination could in the least interfere, provided that the means of transportation were secure from monopolisation by capitalistic combinations. Under common land ownership the case would be simpler still. Anyhow,

Exploitation by a Home Syndicate is preferable to that by a Foreign One,

since the latter depletes the country of money. It may be that our New Zealand *candle trust* exacts a higher price than it

ought to, but at least it consumes New Zealand tallow, and its workers and employees spend their money within the land ; while, if we once open our frontiers, the American candle trust would soon kill our own industry altogether by underselling for a time until its purpose was served. " My father chastised you with whips ; I will chastise you with scorpions " would be the result. Higher prices and good cash demanded in return, cash spent in America, would soon show us how wise our free trade policy had proved.

Take kerosene. Is it quite certain that the higher price which a protection of the local industry might force on us for a time would cost us as much as a possible future rise of prices dictated by the American monopolists once they are freed from any local competition, prices paid with money not locally spent ?

6. If Free Trade is beneficial Nationally, why not Internationally ?

If protective boundaries are of advantage between two States, why should they not be equally beneficent between sections of the same country ; and if, on the other side, it is acknowledged that free trade between sections of the same country is good, if Alabama and the New England States find it to their mutual advantage to have no customs barriers between them, why should such barriers be more profitable between England and the United States ?

We might, after the fashion of the proverbial Scotchman, answer these questions by another : If a man and a woman find it advantageous to throw together their earthly possessions, to earn and spend their sustenance in common, why should not a few millions of men and women do the same to their common benefit ? Whatever the future of humanity may yet bring in this direction, we all know full well that the time of living in communism has not yet arrived for nations. We also know that, though men all over the world ought to live like brethren, they do not. The amiable philanthropists enrolled in our peace societies resemble those other cheerful enthusiasts who talk of abolishing the competitive system, who preach the fatherhood of God and the brotherhood of man, allowing their beatified visions of better days to hide

from them the absolute absence of any practical foundation for their air-castles, as far as the immediate future is concerned.

When there will be just as little possibility of a war between England and the United States as there is of one between Ohio and Pennsylvania, when the two nations will be under the same central government, guaranteeing equal justice, the same currency and land laws, as well as the absolute certainty that no impediment of any sort can ever come between the free intercourse of their respective citizens, then it will be time to ask the questions opening this paragraph. Even as it is, the possibility exists that protection of Alabama against Massachusetts, Pennsylvania, or New York might be beneficial to the workers and employers of the State. Alabama might thereby be enabled to keep men employed at home who now go to the Eastern and Western States to find work; but the advantages connected with the present state of things are so great that any possible one-sided profit which separation might give to the Southern State is far over-balanced. So even the most inveterate protectionist must hesitate to decide where the advantages reaped through protection are weighed in the scale with the benefits due to federation. United Australia was created by the overwhelming majority of the people in spite of the prevalence of the protective spirit.

Federation

No doubt the same result will follow when once the question of a federated Greater Britain enters into practical politics. The objection against New Zealand's joining the Australian Commonwealth lies more on the political field than on the commercial. So were the arguments which I personally put in the foreground when I had the honour of giving my testimony before the commission appointed by our New Zealand Government. I see greater hopes of carrying fundamental social, and political reforms in a small community of only 800,000 souls than in an extended commonwealth with a six-fold population, which will, however, be easily converted by practical success on a small scale. This is proved by the example of Switzerland. The referendum, for instance, was first tried in the cantons Baselland and Zürich in the sixties. Since then it has gradually conquered one canton after another, until

finally the Federation has adopted it. Proportional vote is making similar advance, and so are other reforms. The most urgent progress we need ; that from an antiquated to a rational currency could not be carried in New Zealand under federation unless we succeeded in gaining sufficient votes in the other Australasian States, for currency legislation is reserved to the Commonwealth ; whereas we have a reasonable hope of success in our own little community long before the question is likely to enter the domain of practical Australian politics. So soon, however, as we demonstrate the greatly increased prosperity capable of being accomplished by this reform, our laws will be copied on the other side of the Tasman Sea. If there were no other reason against federation, all progressive men in this country ought resolutely to hold apart from any movement in its favour.

7. Protection forces Hot-house Plants,

while free trade makes every country produce what it is best adapted for.

I have already met this argument when I discussed Adam Smith's illustration of hot-house wine culture in Scotland, when I showed that there may be conditions where the most expensive way of producing an article at home may be cheaper in the end than buying abroad. If otherwise unemployed labour is set in motion it is better to produce by its means than to feed it in poor-houses. But this is not the only answer to the enemies of hot-house culture. Hot-houses are, in colder countries, a necessary adjunct of plant and animal production. Many plants have first to gain a certain strength before they can be transplanted into the open air, and the stable is the hot-house without which many domestic animals could not survive in certain climates, and without which the young especially would have no chance at all. Free trade has been compared to a wind blowing out a small fire while it fans a strong one.

America's iron and steel industry which dominates the world now once was a hot-house plant. Protection enabled it to live in 1867, when the American manufacturer obtained \$120.12 per ton. He would have been ruined if the absence of protection had forced him to compete with English steel rails, which at that period were sold at \$65.70 a ton. In May, 1901,

the American price was \$28, while the English article was quoted at \$29.22. Not bad for a hot-house product !

8. The Waste of Protection

through its costly custom houses has also been put forth as an argument ; but so long as there is any tariff at all in force, the expenses are not greater under a protective than under a revenue tariff. It has been justly pointed out that even England has to pay as much in custom-house expenses as other countries, though she levies only a duty on correspondingly few articles, and it is not likely that she will easily renounce her income from imported tobacco and alcoholic drinks.

Protection not always best

I have thus tried to answer the current free trade arguments, and yet I am not a downright protectionist. For me the problem is simply how a nation can obtain the most favourable balance of trade which is possibly obtainable in the intercourse with other nations. This may appear a very selfish and one-sided policy, but so is that of any business man in trading, which even the most ardent humanitarian sees himself forced to follow if he wants to avoid bankruptcy. His brotherly feeling must not keep him from trying to sell larger bills than he buys, unless he is a capitalist who can make up passive balances from his savings ; otherwise the business will some day be ended for him.

In which way a better balance is reached is another question. I willingly acknowledge that it need not always be by a protective policy. It is very questionable, for instance, whether Germany would not have done better in opposing Bismarck's protective policy of 1879, for it resulted in a general raising of the foreign custom-house walls all around her own borders. Shooting is a very pleasant pastime if the others do not shoot back. In the latter case, the man who began the shooting may be the loser by the operation. Germany may have lost more in the final balance through a prevented exportation than it profited by keeping out imports. Even in this case, however, it is impossible to speak with any amount of certainty, because the

neighbours might have initiated a protective policy without waiting for the precedence of Germany, thus making the impeding of importations, after all, the best policy. Anyhow, I cannot see why England should not find it more advantageous to give up her one-sided free trade policy and adopt reciprocity. Her customers could certainly not object to it, for the fact that England for such a long time allowed her market to be made the dumping-ground for the surplus production of all nations offers no reason why she should be expected to do so for ever. A change of her present one-sided free trade policy would render an

Imperial Zollverein

(Custom union, free trade within the empire) possible. Under present conditions, I hold even Canada's action in giving preferential duties to English goods to have been premature. Preference for preference ought to be the colonial policy: As long as colonial frozen meat, butter, cheese, and wool have to compete in the London market on equal terms with the importations of Argentina, Denmark, Russia,¹ etc., there is no reason why the colonies should treat English manufactures differently from German or American ones. The federation of Greater Britain, or a mere Imperial Zollverein, will remain dreams of optimists until England has got over the Cobden fever, from which all the cold showers applied by other nations have not as yet been able to restore her. The *sine quâ non* condition on

¹ I copy the following letter addressed to the *Daily Mail* of London by one of its correspondents in the spring of 1901, to illustrate the existing state of things. I think we may safely say that no other country on this globe, besides Great Britain, follows such a planless commercial policy.

"The export of Russian butter to England in 1900 amounted to over £2,000,000, and for the current year the minister for finance estimates it at nearly £4,500,000. Why this enormous increase? Is Russian butter so vastly superior? Or is John Bull still asleep? Are we to buy and eat Russian butter, and thus help to increase the prosperity of that country? I would suggest that the British public ask for and demand colonial butter, 'pure creamery butter,' New Zealand produce, etc., etc. We should thus be strengthening the bonds of loyalty and affection between the old mother country and those colonies who so willingly sent their best treasures into the Transvaal for the glory of England."

which the colonies could permit the free entry of British goods would have to be

An Imperial Protective Tariff

which prevents outsiders from cutting colonial produce. It might be argued that, though the shutting out of Argentinian wool, or handicapping it with a custom duty, might benefit our colonial farmers, the free admittance of English manufactures would ruin our domestic industries—if we left out of sight an important element of the problem.

The Position of the Colonies

This is the higher price paid by England for her raw materials in consequence of the protective duties put upon them to the benefit of the colonies. The position of her manufacturers would entirely change thereby. Instead of remaining at home—like spiders in the quiet nets into which all the farmer flies of the whole world hasten, squeezing each other to facilitate the sucking process of the wily spinners—these manufacturers must look to the colonies for their supply. The same process will result with which the United States are gradually becoming familiar: manufacturers bound to certain sources of supply move their factories nearer to the raw material. As New England cotton manufacturers already begin to move into the cotton-producing regions, so the Yorkshire woollen mills will—partly—come to Australasia, where not only the raw material is found near the factory, thus saving the ocean freight, but where the workers can find their food stuffs cheaper, and where they can erect homes on land not yet brought up to ruinous prices by the land speculator. The further advantage of nearer markets, of which no outside competition can deprive them, adds another important element of success. The textile factories will bring the engine and machine works in their train; and these will be followed by the iron and steel producer, who finds a cheap and convenient raw material ready to his hands. Just as the Iowa manufacturer can compete with his New England colleague, so our New Zealand manufacturer will,

under a custom union, gradually be able to work alongside of his English competitor. There may be transient losses to established factories in the beginning, but the general effect on the trade of the country will be such as to amply compensate for such temporary drawbacks.

Reciprocity required

Free trade and peace are wonderful blessings, but only where they are not one-sided attainments. As we have to arm as long as our neighbours threaten us with their blunderbusses, so we have to protect our own markets as long as others shut us out from theirs. Wherever reciprocity can be obtained, the blessings resulting from the arrangement must in the end over-balance any possible drawbacks. I fight the free trader as little as I attack the non-resistance fanatic. The only condition to my forbearance is the certainty of mutuality. When they preach free trade towards nations who exclude us from their markets while they make ours the dumping-ground of their surplus produce; when I am told to lay down my arms in the presence of parties who take aim at me with their rifles, I pay no attention to the men who give such advice. The only extenuating circumstance allowable to our Cobden fanatics is their delusion in regard to the fundamental principle on which their theories are built, with the criticism of which I had to open my discussion of international trade relations: the principle that commodities are always paid for with commodities. With this delusion falls the very key-stone of their building.

Henry George's Robinson Parable

Though I have furnished sufficient proof as to the absolute fallacy of the theory and the superiority of mercantilism over Smithism, I may as well conclude this chapter by meeting on his own field a great genius who unfortunately fell into the Smithian trap, a field on which he shows special power: I shall give my version of a parable invented by Henry George to ridicule protectionist fallacies.

“Let us take a community which we must perforce consider

as a whole—that country with a population of one, which the genius of Defoe has made familiar not only to English readers but to the people of all European tongues.

“Robinson Crusoe, we will suppose, is still living alone on his island. Let us suppose an American protectionist is the first to break his solitude with the long-yearned-for music of human speech. Crusoe’s delight we can well imagine. But now that he has been there so long he does not care to leave, the less since his visitor tells him that the island, having now been discovered, will often be visited by passing ships. Let us suppose that after having heard Crusoe’s story, seen his island, enjoying such hospitality as he could offer, told him in return of the wonderful changes in the great world, and left him books and papers, our protectionist prepares to depart, but before going seeks to offer some kindly warning of the danger Crusoe will be exposed to from the ‘deluge of cheap goods’ that passing ships will seek to exchange for fruit and goats. Imagine him to tell Crusoe just what protectionists tell larger communities, and to warn him that, unless he takes measures to make it difficult to bring these goods ashore, his industry will be entirely ruined. ‘In fact,’ we may imagine the protectionist to say, ‘so cheaply can all the things you require be produced abroad that unless you make it hard to land them I do not see how you will be able to employ your own industry at all.’

“‘Will they give me all these things?’ Robinson Crusoe would naturally exclaim. ‘Do you mean that I shall get all these things for nothing, and have no work at all to do? That will suit me completely. I shall rest and read and go fishing for the fun of it. I am not anxious to work if without work I can get the things I want.’

“‘No, I don’t quite mean that,’ the protectionist would be forced to explain. ‘They will not give you such things for nothing. They will, of course, want something in return. But they will bring you so much, and will take away so little, that your imports will vastly exceed your exports, and it will soon be difficult for you to find employment for your labour.’

“‘But I don’t want to find employment for my labour,’ Crusoe would naturally reply. ‘I did not spend months in digging out my canoe, and weeks in tanning and sewing these goat-skins, because I wanted employment for my labour, but because

I wanted the things. If I can get what I want with less labour, so much the better, and the more I get and the less I give in the trade you tell me I am to carry on—or, as you phrase it, the more my imports exceed my exports—the easier I can live and the richer I shall be. I am not afraid of being overwhelmed with goods. The more they bring the better it will suit me.'

"And so the two might part, for it is certain that no matter how long our protectionist talked, the notion that his industry would be ruined by getting things with less labour than before would never frighten Crusoe."

Of course, if the importers took from Robinson goods which abounded on his island, and which could be supplied by him with much less labour than that entailed by the goods which the others gave him in exchange, his astonishment at the protectionist theories put before him would have been justified. Such a trade would have meant reciprocity; and only extreme protectionists can object to free trade under such conditions. Nor would it have made the least difference what time elapsed before the importers took Robinson's produce in payment. In fact, the longer they tarried the better for Robinson, who could let his wealth breed additional wealth in the meantime. But let us suppose that the strangers' bill was higher than the value of the produce which they accepted from Robinson in exchange, so that Robinson had to run into debt, and that 5% interest was demanded for this debt, Robinson giving as security a mortgage on his island. And let us further suppose that year after year elapsed, and no favourable balance of trade enabled Robinson to pay his debt, his further bills against the importers not exceeding the amount of the new bills of goods they sold him. The debt remained, the interest on it accumulating all the time, with the frightful velocity of compound interest; until one day a sheriff comes along who, as Robinson cannot pay his debt, sells his island over his head. As the proceeds are not sufficient to pay for the debt, all the other belongings of the poor man are also sold, and he is set adrift in the world, penniless, unless the new owners of his island consent to retain him as a labourer or as their tenant, who has to work hard from morning till night to pay his rent and to eke out a meagre living. No more imports

are offered now, but most of Robinson's produce is taken away for rent. Was it really Robinson's best policy, under such conditions, to buy the cheap goods offered to him? Was it not better to produce them by his own labour, though applied under much more unfavourable conditions, and to refuse the importers' goods at any cost so long as he could not pay for them with his own produce, but had to run into debt? Anything was better than to become the interest serf and finally the rent slave of the strangers. Fair trade, but not unconditional free trade, was the only not right-down suicidal policy open to Robinson, and as his supposititious case corresponds with the realities of individual and national trade, the illustration proves the very reverse of what was intended. Fair trade is a certainty where the interest poison does not come into the way. Where it does, however, counterpoison Protection, and even Prohibition of importation, may be found a good remedy.

The Parable modernised

Let me bring the state of things on Robinson's island a little nearer to the reality of every-day life. Let us suppose that Robinson had made a speciality of the raising of food stuffs and the production of raw materials; while an artisan, Jones, who had immigrated produced furniture, clothing, and other manufactures required by himself and Robinson. The two exchanged with each other, each fixing money prices for his goods which remunerated him well for his labour, as they enabled him to obtain all he needed of the other's produce. Now an importer lands, and offers all goods manufactured by Jones at one-half the price he charges. Robinson at once ceases to give his orders to Jones and transfers them to the importer; for why should he pay more for his goods than he can get them at in the cheapest market? Jones, being out of work through the loss of Robinson's custom, emigrates. After a little time the importer wants his bill paid. Robinson says that he has no money, and that his former customer, Jones, always accepted produce in exchange; he could only settle his bill with produce. The importer agrees; but freights are high, and competition in this kind of produce in the distant markets is very sharp, which forces him to offer one-quarter of the price

only which Jones had paid. Robinson cannot help himself, as he needs the goods of the importer, Jones having left ; so that he either has to go without goods which have become a necessity to him, or has to make them in a much more primitive way with much more labour.

He thus finds that he pays twice as many bales of wool, bushels of wheat, tons of coal, as he had to supply to Jones for the same manufactures. He has some bad seasons, and he runs into debt with the importer, who takes a mortgage on the island, which increases through compound interest, until finally the island is sold, and Robinson becomes the rack-rented tenant, or (at last) the labourer of the new owner. After his death, in some poor-house, the island is turned into a deer park by the rich proprietor.

CHAPTER VI

BANKING

"No banking system based upon gold can possibly meet the demands of expanding industry ; it can never be other than a wrecker of industry."

—W. A. WHITTICK.

THIS chapter will deal only with two branches of banking : with the credit business and the money issue. I purposely do not say the bank-note issue, because, as I have shown in Chapter III., bank-notes are mere money representatives, a form of credit, as long as they are not legal tender. Only when they are legal tender they are money, and need a special classification ; ordinarily they are included in the bank's credit business. To refer to other work performed by banks and bankers, such as money changing, purchase and sale of drafts, especially on foreign countries, stocks, bonds, etc., is unnecessary, as I can hardly say anything new in this respect, and as even the most radical State bank partisan would not care to forbid this trade to private banks. A chapter which is mostly concerned with the question whether the credit and money-issuing functions of our banks are not better monopolised by State banks can therefore leave this branch of the subject out of discussion.

State or Private Banks ?

The dispute as to the relative advantages of the two systems of banking has advanced a stage through the consideration of the new system of issuing paper money here advocated, because the main objection hitherto brought forward against State banks of issue,

The Danger of Inflation,

in case the financial necessities of the public exchequer offer too strong a seduction for an appeal to the note press, can now

be provided against by the limitations of the new system. Not that much importance need be attached to this ground of preference in favour of private banks; for experience has proved that such banks cannot resist the pressure put upon them by the needy treasury, and, in fact, most of the inflated note circulations known are those of private bank issues. I presume that it is unnecessary to explain that most of the so-called national banks are mere private banks—limited companies to which certain privileges have been given by the State—such as the Bank of England, the Banque de France, the Deutsche Reichsbank, the Bank of New Zealand, etc.

Minor reasons usually assigned for the preference of private banks to State banks have lost their importance through practical experience. So, for instance, the greater

Security in Times of War against Seizures

by an enemy. Napoleon the First, amongst others, proved by example that the money of a private bank is just as little exempt from seizure by victorious troops as that of the State treasury. The only difference may have been his passing through the formality of giving a receipt payable by the conquered State out of the imposed contribution levies. Another argument against State banks has always been the

Fear of State Administration ;

but practically the national banks of Germany, Austria, and France, though they belong to shareholders, are to a certain extent administered by the State, or, to be more explicit, by State officials; and it is well known that their administrations are not inferior to those exercised by the appointees of shareholders. The fear that political influence might conduct to the patronising of favoured individuals has not, as a rule, been justified in the case of these institutions; whereas the same cannot be said of many a private bank administered by the nominees of the shareholders—as the scandals brought to light (1892) in the administration of the Banca Romana have sadly proved. Those who are familiar with the methods of our New Zealand banks well know that impartiality in the according of

credits certainly does not belong to their prominent virtues ; and that directors may sometimes decide regarding credits and discounts because of motives which render political influences pure and noble in any comparison with them. Methods may, and will, be devised to make political influence innocuous—the French, German, and Austrian administrations supply a precedent for this—whereas I cannot see what possible remedy there is against the abuses of the system at present prevailing in our country, unless it be State administration, which would give the shell to the State, and leave the kernel to the capitalists, I had no full idea what arbitrary power bank directors exercise and the menace this power is to the development of the country and its institutions, until my experiences as founder and managing director of the New Zealand Commercial Exchange Company, Ltd.—the so-called Exchange Bank—gave me the proof. I think I am fully justified in saying that one of the greatest obstacles in the way of this beneficent institution, of which Chapter IX. will say more, was the fear of business people to displease their bank manager and his directors—which might have meant a calling in of their overdrafts and consequent ruin. Those who style Mr. Seddon the despot of New Zealand ignore that whatever power our energetic premier may wield pales before that in the hands of our bank magnates.

Banking Profits

When I said that State administration and private ownership would be the sacrifice of the kernel for the shell, I meant that the question of administration, weighty as it is, recedes into the background when we consider the immense value of the privileges which the State now squanders upon private capitalists—instead of making them a source of public revenue. Even the right of issuing notes, important as it will become under the changed conditions expected from the proposed reform, is not the most valuable and important of banking privileges ; and besides, this right is not always given quite for nothing. In New Zealand the banks have to pay a yearly tax of 2% on their note issue. In Germany a tax of 5% is paid beyond a certain amount of note issue, and part of the bank's profits belong to the State; in France a fixed amount is paid

in as a stamp duty, and an income tax of 3% from the dividend. In Austria-Hungary a certain quota of the net profit is paid to the State. The Bank of England pays something over £200,000 a year into the treasury for the right of issuing notes.

The principal source of profit made by banks is derived from the interest of current accounts—which means the interest profit made through lending to one set of people what the others deposit. Our New Zealand banks, for instance, gave the following statement for the quarter ending September 30, 1900:

Fixed deposits	-	-	-	£7,944,139
Free deposits				£7,002,235
Total				<u>£14,946,374</u>

From these deposits they made advances to the amount of £11,262,204. This leaves out of sight the account with the Government and other investments made by the banks, from which they draw interest. On the other side, we have to take into account the coins and bullion kept in stock. This item amounted to £2,742,641, from which we have to deduct the note issue for which part of the coin is held liable, amounting to £1,269,002; so that only £1,473,639 have to be deducted from the amount of deposits. This leaves £13,472,735 upon which the banks obtained interest; which, on the average, did certainly not fall much short of 6%, if we have to judge by their gross profits. Taking as much as 3% as the rate paid for fixed deposits—though it is usually lower where these deposits are made for less than a year—and we find in round figures about £600,000 gross profits made by lending the money of one set of men to another, minus expenses of administration. I do not include the 10 shillings a-year for each account which the poor institutions found it necessary to charge because of their meagre profits, nor the profits made through the exchange charged on cheques payable in other towns, on drafts, etc. Let us figure only £400,000 net profits from this source, leaving the balance to come up for possible differences and for expenses not borne by the other profits. These £400,000 certainly could have been made by the people for themselves, if they had kept their accounts by the means of a State or co-operative bank.

Exploitation of the People's Stupidity

The whole arrangements remind me very much of a story I once heard in America. The Mississippi had overflowed its banks. Hundreds of fine logs were rapidly drifting past a crowd of negroes who had gathered on the shore. They looked shiftlessly at the timber, when a white man, a stranger in those parts, addressed them.

"Boys," he said, "I give every one of you one-half of the logs as salvage which he lands!"

With a will the men went into the water, and soon quite a number of valuable logs were piled on the shore. They took half of them for their labour, and the stranger took possession of his share and sold it to a neighbouring sawmill.

"Fools, those negroes!" the reader will say. "Nothing prevented them from securing the timber for themselves, without giving a share to a stranger who had not moved a finger, and who had not the least claim on the timber."

Certainly ; but, my dear friend, are you not acting in the same manner whenever you pay a bank for the right of an overdraft? The bank, in this case, only allows you to make use of your neighbour's labour or its products, whom you finally repay by the products of your own labour. The bank only does the service of a clearing-house for you. It provides the tokens required for this mutual exchange, and for this service the banks of New Zealand, after paying all expenses, pocket at least £400,000 a-year. It is this price you pay for the permission to secure the logs, a permission enjoyed by you before it is generously given, after you begged hard for it; and besides, after you gave good security for your readiness to jump into the river to bring the logs ashore. Or, in other words, it is the price you pay for the use of tokens which you can just as well issue yourself. You can back them by something which is better than gold, and anyhow than *no gold* (only a small fraction of gold is held ready by the banks as a cover of their tokens)—*your own valuable labour and its products*. You do not need to pay for the permission of outsiders to let loose your productive power; you are entirely free to do so without their goodwill. However, the snug little tribute paid out so unnecessarily is the least item to be considered.

The Question of Security

comes in foremost. There is such a thing in this world as a broken bank. We in this country have a little tale to tell on this score. The Colonial Bank failure is still in sad remembrance, and the Bank of New Zealand would have gone the same way if the State had not stepped in to the amount of £2,000,000. A State bank would certainly offer a better security to depositors than most of the present private institutions.

The so-called

National Banks of the United States

have to deposit Government bonds as collaterals, but this security only protects the note issue: the poor depositors have no protection whatever if the comparatively small capital of the banks and their deposits are lost through risky operations. Formerly, part of the collaterals deposited in the Treasury figured in the assets, as notes could be issued only up to 90% of the nominal value of the bonds; but now the law permits an issue of dollar for dollar. The following article from the *Public* (April 28, 1900) gives only the capitalistic feature of the new law, but even this is so highly interesting that I have thought it worth while to copy the article *in extenso*:

“When bankers want an Act of Congress facilitating the issue of bank-notes, they assure the public that there is really no profit in the issue feature of banking, and that their sole purpose is to serve the people by furnishing them abundantly with currency. But when banks have got the Act about as they want it, indiscreet financiers sometimes ‘give the snap away.’ Here, for instance, is the firm of Price, M’Cormick & Co., of 71 Broadway, New York, which sends out a business circular full of enthusiastic praise of the National Bank Bunco Bill which has recently been enacted. A peculiarly interesting feature of this circular is a table which shows the profit a bank can make out of the issue privilege. It is not the work of some moon-eyed greenbacker, but has been put together in simple, though suggestive, form by a firm of financiers, in order to

stimulate 2^o/_o bond purchases at a premium of 6^o/_o for the purpose of organising national banks.

'Twos' at 106

"Table showing the percentage of income realised on the actual cash investment.

\$100,000 'Twos' would cost at 106	.	.	.	\$106,000
Less circulation issued against same	.	.	.	100,000
Actual cash investment				\$6,000

On which income would be received as follows :

Interest on \$100,000 'Twos' per annum	.	.	.	\$2,000
Less tax $\frac{1}{2}$ per cent.	.	.	.	\$500
Less sinking fund to retire premium, to be improved at 4 per cent.	.	.	.	107
Less expenses, cost of printing, etc.	.	.	100	707
Net income				\$1,293

Equivalent to 21.55% on investment of \$6,000.

"This table clearly shows, it will be observed, that under the new gold standard banking law a national bank can exchange \$100,000 of its capital for \$100,000 of its own notes, made universally current by Government endorsement, doing so at a cost of only \$6,000, and net \$1,293 a-year by the transaction. In what legitimate business could \$6,000 be put to such safe and profitable use ? "

The article does not even mention the profits made by the banks out of the money of depositors, and the risk run by the latter, fully illustrated by the crisis of 1893.

"Circulus Vitiosus"

To feed the financial cormorants who thus exploit the State and the public, the excellent greenbacks have to be retired, for the State's paper has to suffer whenever the issue of national notes and greenbacks combined oversteps the amount which can be kept floating. Greenbacks are then presented at the

United States Treasury for payment in gold ; the gold is used to buy bonds from the State which she had to issue to obtain gold for the greenback-holders, and upon these bonds, whose interest goes into the pockets of the bank-owners, national bank-notes are issued to them, which again drive a corresponding amount of greenbacks out of the market, with the same result. The game will be continued until all the greenbacks are replaced by national bank-notes, until the bank-owners reap the whole interest profit from the nation's paper money issue, which, as far as the greenback circulation was concerned, went into the public purse. Or, in other words, the State had to borrow, at not less than 2% interest, millions which she had free of interest from her greenback circulation, and these 2% (formerly more), minus a slight deduction, go into the pockets of private parties, besides giving their banks a semblance of solvency which they do not possess. The worst of it is that the State alone is practically responsible for the payment of the national bank notes in gold, for the banks can easily get out of their obligations to pay this gold, as long as greenbacks are obtainable. They simply exchange their notes for which gold has been demanded of them, against greenbacks, and by presenting these at the Treasury they get back their gold. To obtain this gold, new bonds have to be issued by the State, which enable the banks to increase their note circulation. When another crisis arrives, which breaks the banks, the State may have to sell the bonds deposited with her to obtain the cash demanded for the national bank-notes ; and if the bonds are not saleable at par, the loss will have to be made good by the tax-payer.

Law needed to prevent the Lending out of Free Deposits

There is no valid reason why the cheque circulation should be less protected than the bank-note issue. If legal tender money has to be kept ready for the one, it should be held in reserve for the other, and a law which would force the banks to keep in stock, in their vaults or in those of the State, legal tender to the full amount of their free deposits, or deposits on call—as they are also called—would certainly be recommendable. Such a law would, anyhow, secure the depositors who

left their money with the understanding that they can dispose of it from one day to another. Those who lend their money to the banks for certain periods, at interest, need as little protection as other parties who lend out money. Their position is entirely different from the free depositors who really only bring their money for safe keeping, and expect to find it when they want it. That this is a vain expectation has been shown already in Chapter III., where we saw that our banks, including the savings banks, owe on demand as much as 14 millions, for which about £2,700,000 in coin and bullion is on hand; for it is to be supposed that the savings institutions also deposit most of their cash with the banks, and that this money may therefore be considered as included in the £2,700,000. So, on an emergency, after one-fifth of this class of creditors have been paid, there is not a penny left for the other four-fifths; their deposits are gone, and whatever engagements they may have made on the expectation that the money deposited by them on call is always at their disposal cannot be met for the time. Even if there should be a settlement some day, irreparable loss may have been entailed. It is a strange latitude given by our laws to private bankers, and a remedy is urgently needed.

George Clare, in his "Money Market Primer," says (p. 317): "The law takes no cognisance of a banker's operations in accepting deposits. It leaves him to keep as much or as little legal tender as he pleases. It forbids him to put forth a single note beyond the amount assigned to him in 1844; but is silent on the subject of deposits, and while the State controlled liability to the public of all the banks in the United Kingdom (excluding the Bank of England) amounts on their authorised issue to £14,000,000, their uncontrolled liability on Current Deposit Accounts amounts to £650,000,000. Practically the whole of this vast sum is payable in gold on demand, but on the assumption that only a very small proportion will be asked for at any one time, bankers have locked up over 90%, and only the Bank of England pretends to keep up a large store of legal tender money. The 13 or 14 million pounds of notes and gold lying in its vaults are therefore the ultimate and sole cash reserve, in the whole country; and if the bank lost that reserve, neither the banks which depend on it, nor the customers who depend on the banks, would be able to keep

their engagements. On it, in short, reposes the entire fabric of English credit."

"Locked up" is a misleading expression. Mr. Clare means the money has been paid away, and is invested elsewhere. In fact, most of the money never existed, was only the ghost of money—credit money pure and simple. The law which does away with this dangerous state of things would only restore what once was considered a matter of course in the beginning of banking. Thus the Bank of Amsterdam in the seventeenth century was a bank of deposit pure and simple. The money was left there for safety's sake, and was kept until called for. I suppose at that time it would have been a felony if the bank had dared to trade with such money entrusted to it for safe keeping. I quite admit that if other views had not obtained, our civilisation could never have reached its present development. Sir Walter Scott says of the

Scotch System of Banks of Issue :

"The facilities which it has afforded to the industrious and enterprising agriculturist or manufacturer, as well as to the trustees of the public, in executing national works, have converted Scotland from a poor, miserable, and barren country into one where, if Nature had done less, art and industry have done more than in, perhaps, any country in Europe, England not excepted. Through the means of credit which the system afforded, roads have been made, bridges built, and canals dug, opening up to reciprocal communication the most sequestered districts of the country; manufactures have been established, unequalled in extent or success; wastes have been converted into productive farms; the productions of the earth for human use have been multiplied twenty-fold, while the wealth of the rich and the comforts of the poor have been extended in the same proportion. And all this in a country where the rigour of the climate and the sterility of the soil seemed united to set improvements at defiance. Let those who remember forty years since bear witness if I speak truth or falsehood." (Robert Ellis Thompson, "Political Economy," p. 154.)

Without the high credit building erected on our scanty money stock, the immense extension of our modern trade could never

have existed; production and distribution would have been cramped as they were in the Middle Ages.

Nor do I advocate that gold should be kept in stock by our banks. Government paper would be preferable, provided it were legal tender; and anyhow, it is better that the people's hoardings should benefit the whole community instead of private institutions. Even if New Zealand did not adopt the reform currency here proposed, the Government ought, at the least, to pass a law forcing banks to keep treasury notes in stock, not only for the bank-note issues, but also for the free deposits, which thus have the guarantee of the State behind them, while the State can make use of the money for her purposes. This does not apply to the savings banks, for these are not supposed to accept the money from their depositors in safe keeping, but to invest it for them as their trustees.

Advantage of such a Law to the Community

The sum thus put at the immediate service of the New Zealand Government would at present amount to about £8,700,000, minus the coin and bullion in the bank vaults of £2,700,000, = £6,000,000; which would be available for the completion of our railroad net, or advances to settlers. Lent out at the present rate of $4\frac{1}{2}\%$, and deducting the present proceeds of the bank-note tax, this would give an income of £240,000 a year, enough to double our old age pensions and still leave something for other purposes. The funds thus put at the disposal of the community will be much larger after the introduction of the reformed paper money, owing to the effects of this reform on our interest rate. In the chapter on "Interest" we shall see that in such a case this rate will go down considerably until it is lower than in Lombard Street. The lower the interest the more people will leave their deposits on call, the right of immediate disposal over the money, whenever a good chance of investment offers, becoming more important in the same measure in which the interest obtainable on fixed deposits is reduced. Though the interest profits of the State may not grow much through such an increase of the available funds due to free deposits, the uses it can put the capital to for public purposes may be productive of an amount of public good far exceeding any figures calculable in interest tables.

The same condition, a deposit of legal tender money, would apply to the note issue of our banks which would practically put an end to such issue, when the interest obtained for lending out the notes would have to be paid for the borrowing of the security. Much better save the trouble by making direct use of the Government notes. Such a law would do away with the most objectionable feature of the present banking system, and would make the demand for a State bank, which is gaining a growing support, less urgent. The new notes could just as well be issued by a department of the Treasury; and if the present banks abuse their remaining power, co-operative banks could make the people independent of them.

The People their own Bankers

We must not forget that most of the money power possessed by our present banks is not derived from their own capital, but from the deposits of the people; and if once the people come to understand that they do not need these arbitrary institutions, but can be their own bankers, the banks must liquidate their business. I quote a few passages from "People's Banks," by Henry W. Wolff (London, 1893), one of the best accounts given of those wonderful institutions, called the Raiffeisen Banks, after their German organiser.

"'Le plus grand banquier du monde est celui qui dispose de l'obole du prolétaire,' says Jules Simon. ('The greatest banker in the world is he who has the proletarian's obolus at his disposal.')

"'The only capital which will endure,' says Professor Laurent, with the approval of Emil de Laveleye, 'is the capital created by the working-man in himself. It would be idle to lend to him or to give to him the implements for his work. Such gifts, like an inheritance under the touch of a spendthrift heir, would be squandered in little time.'

"An ample and practically inexhaustible resource of productive power lies hidden in the labour, the frugality, the honesty of the nation's workers, as materials for capitalisation; just as people who have not seen rivers like the Danube or the Rhine could not possibly estimate from the little dribblets and rills which go to make them up what a vast volume of water may be collected from these insignificant sources.

"Dr. Johnson said that it takes 240 poor men's pence to make one capitalist's sovereign. But once a sovereign, put so together, it is a totally different sovereign from that taken out of the rich man's safe. It has behind it 240 wills, 240 pairs of watchful eyes, 240 thinking brains. It has, so to speak, become an animate sovereign, with prudence, energy, vigilance diffused through all the parts."

These theories have been practically realised in Germany and Italy since, in 1849, the first

Raiffeisen Bank

was founded in the Westerwald, Germany—the mother of over a thousand offspring. These banks, together with another kind of people's bank on the Schultze-Delitzsch system, and the different kinds of co-operative institutions organised by the people, possess, according to Wolff, a capital of 250 million pounds sterling. Though the Raiffeisen banks lend on personal security, the losses were only about 2s. 6d. per member in 1892. As they are based on an extensive or unlimited liability, each member watches his fellow-members; which is not difficult, as the members usually live close together.

"In Italy, 28·68% of the members are engaged in small industries and trades, 8·40% are artisans, 15·40% are school teachers, Government employees, etc., 19·08% are small cultivators, and 3·18% are labourers. The balance are agriculturists, manufacturers, and traders, or persons without a calling." One thousand societies exist with over 150 million lire capital (6 million pounds sterling). They lend out over 500 million lire, and have about 400,000 members. The losses in Milan, a society with £500,000 capital and reserve, have not reached ten cases in twelve years.

A leading feature of these banks has been the capitalisation of profits, a principle especially to be recommended to the British co-operative societies. More will be said on this subject in Chapter IX. of this work.

State Bank and People's Banks

The organisation of such banks must greatly facilitate the operations of a State bank by relieving it from the task of dis-

criminating as to credits, a difficult and dangerous task—dangerous for the finances of the State and the political independence of the people. I would much rather see the State bank or Treasury lend its notes to the co-operative banks against their corporate guarantee, supported by the limited or unlimited liability of the members. I should prefer a limitation of the liability to an amount of, say, five times the share capital subscribed by the members. These banks would then attend to the according of credits. That such credits could be given much more freely, and still with much less risks under the new conditions, has already been specified in Chapter IV.

Our Banks a permanent Danger

Anyhow, it is of the greatest importance that the people be rendered independent of the present bank directorates and managers, whose decisions—even when there was no ill-will—have often been fatal to the welfare of their clients and to their own prosperity. R. H. Patterson, in his "Economy of Capital," gives a very interesting experience made by the American banks in 1857:

"The banks broke many business firms by curtailing discounts, and the business people answered by breaking the banks through calling in their deposits. Then the banks saw their error and commenced liberal discounting, though they hardly had a dollar in their tills. At once the gold returned, and three months after the suspension, there were a million more in their vaults than before the crisis began. The notes had never been questioned."

How different the record of the people's banks in Germany! In 1866 and 1870, the two war years, when deposits were withdrawn wholesale from other banks, they were actually pressed upon the Raiffeisen banks, and for any length of time, as long as they proved trustworthy and used the money for productive purposes. The Rhineland law courts even allowed trust money to be lent them.

Scotch Banks

The Scotch banks could also be cited as exemplifying a good bank policy. I quote from Adam Smith :

“ They invented another method of issuing their promissory notes : by granting what they called cash accounts ; that is, by giving credit to the extent of a certain sum (two or three thousand pounds, for example) to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him, within the sum for which the credit had been given, should be repaid upon demand ; together with the legal interest.”

I have already shown in Chapter IV. that security as good, or even better, will be supplied by the products of labour after the new currency has guaranteed an average stability of prices. I need hardly add that such strict terms as those mentioned by Smith, “ payable on demand,” are totally out of place in the case of a currency which sees its quantity increased whenever an extraordinary demand is made. No more of the

“Stand and Surrender”

business practised by our modern highway robbers, who first lock up the scarce money and then demand its immediate delivery or a sacrifice of property at ruinous terms ; for the more money they will lock up under the new conditions the more will be forthcoming from the paper press of the State.

Immediate Help

The officials of the issue department certainly will not wait until the periodical statistics indicate a fall of prices, but will at once issue more money whenever it becomes clear to the most superficial observer that a downward tendency of prices obtains for the time. Such downward tendency is the immediate result

of a scarcity of money, and the periodical statistics will merely serve to adjust the issue more exactly and to prevent abuse.

The Methods of Issue

hardly require discussion, for they could closely follow those now in use. The minimum money issue required by trade will be used for public works, thus representing the 14 million pounds of notes issued by the Bank of England for money permanently lent to the State; the balance is lent out to the people. Even here it will be best to follow precedents, and to lend partly on overdrafts, partly by means of bill discounting; the rate of interest being determined by supply and demand. We know that the Bank of England and the other European banks raise their discount rate for bills when their gold reserve goes down, and reduce the rate when the gold stock increases. There will be no gold stock to be maintained under the reformed paper currency; but still the rate of interest in discounting and lending will have to perform a similar purpose to the one it serves under the gold system. It will be the flood-gate whose opening and closing depends on market prices. When prices have a downward tendency, the rate of interest demanded by the bank or banks will go down, with the result that the issue flood-gate will go up, or *vice versa*. The lower rate will induce borrowing, and the buying of goods with the borrowed money, which has a strengthening effect on prices. On the other hand, when prices rise through a too great abundance of money, the raising of the interest rate will discourage discounting and lending. A number of bills will be paid without demand of renewal, and some of the overdrafts will be settled. In this way, part of the circulating money is withdrawn and prices fall until the normal equilibrium is re-established. In practice I hardly think that a restriction of the existing issue will often be found necessary, for trade, once freed from the dread of a crisis continually pending over it, will steadily expand with every new progress in the arts of production and distribution, as well as with the growth of population, and such extension may render a continuous increase of the currency imperative. Thus, a slight raising of the interest rate, just sufficient to prevent increased borrowing, without being considerable enough to cause repay-

ments of past debts, will perhaps be sufficient. *The task will probably not be to restrict the existing circulation, but to prevent further issues for the time.*

Currency Reform without a State Bank preferable to a State Bank without Currency Reform

I cannot close this chapter without addressing a note of warning to those zealous partisans to whom the creation of a State bank is the one panacea for our financial difficulties, whose origin they see in our present system of private banking. If, as Mr. Miles Verall, one of these men, for instance, demands, the present currency system remained untouched, if gold continued to be the measure of value, our legal tender, a State bank would help very little. If, on the other hand, a currency reform on the lines here proposed is carried through, the institution of a State bank becomes only one of the instruments available for the purpose of regulating the issue and circulation of the new money; perhaps the best of possible instruments, but by no means the only one. In other words : *a reformed currency can be a success even without a State bank, whereas a State bank never would bring about a fundamental reform without a change in the currency.*

CHAPTER VII

INTEREST

"Usury bringeth the treasure of a realm into few hands, for the usurer, being at certainties, and the other at uncertainties, in the end of the game most of the money will be in the box, and a State ever flourisheth where ealth is more equally spread."—LORD BACON.

Interest Condemned

THE taking of usury has been condemned by the ethical and often by the statutory laws of all nations and times, and only since a comparatively recent period, that of Elizabeth, has the term *usury* been confined to the taking of exorbitant increase, while the new term "interest" has been substituted for what before was called "moderate usury." So at least we are informed by R. G. Sillar, the indefatigable enemy of interest, who tells us that "when the first usury law was passed, it was necessary to coin a word for legal usury, and we find the word 'interest' was first used in a public document in 1623, in the Act of James I. . . . It was most likely used privately before this, for Shylock says: 'My bargains and my well-won thrift, which he calls "interest,"' and he apparently says this with a sneer."

Usury — interest in our sense — was forbidden by Bible and canonical law. Philosophers attacked, and the baneful experience of history arraigned, the dangerous practice, until, in our times, the usual result of the popular adoption of a polity and of habit obtained — the man of science tried to justify what was universally practised. Only in this way can we explain the defence of interest set up by political economists: threadbare sophistries of so flimsy a fabric that custom and prejudice alone prevent every observer from seeing through them. An untutored savage would laugh at such teachings, would think their exponents possessed by evil spirits. Try to make him understand, when he borrows one of his neighbour's horses which

the other does not need, but only keeps in reserve for an emergency, that this feeding of the horse is not a full equivalent for the loan, provided the use the animal is put to does not decrease its value. Try to make him see the possibility of a claim amounting to two horses after a certain number of years, both as young and good as the original horse was when he borrowed it, and that a time may arrive when, though the borrowed horse long since went the way of all flesh, the debt to his neighbour or his heirs shall have grown to the extent of a herd of horses—of more horses than are possessed by the whole tribe. A mere savage will never succeed in seeing the possibility, not to say the justice, of such a claim; it needs a civilised man to understand the effect of compound interest, and a professor of political economy or one of his guild, to defend the principle. And now let us see how they go about it.

Interest the Result of the Productivity in Capital

Prominent among their theories is that which ascribes to capital a certain inherent productivity, which is let with the capital, and is refunded to the lender in the shape of interest. The term "capital" is here used in the sense of "means of production," but excepting land, the income from which is called "rent," there is no means of production which will bring forth anything without being used by labour. This, by itself, would not invalidate a claim made for capital of part of the surplus which has been realised by its help; part of the surplus, for unless labour gets at least some of it, labour would have no advantage to use capital. How much of this surplus will have to go to the capitalist and how much to labour will generally depend on supply and demand under free conditions. A well-known example used by Bastiat in defence of interest represents capital by a plane and work by a carpenter. If there were only a limited number of planes in the world, not sufficient to supply the demand, Bastiat would be correct in maintaining that as a carpenter could produce more planed boards with the plane than he could with a more primitive tool, he would find it to his advantage to borrow the plane, though he had to give to the lender some of the surplus product due to the use of this

plane. In Chapter IV., I have shown that the production of tools would outrun the demand if no artificial obstacles were in the way. In this case planes would be as plentiful as huckleberries, and plane-owners would have a larger stock of planes to lend or sell than there are cabinet-makers and carpenters willing to use them. Keeping these planes in stock would simply mean the gradual loss of the capital; for mould, rust, fire, earthquakes, war, robbery of any kind, cost of storage and cleaning, are all elements of depreciation; and at any time a new invention may make old patterns unsaleable altogether, or saleable at a much reduced price. Thus it is evident that the plane-owner would do better in letting out the plane free of cost, provided the carpenter agreed, under a sufficient guarantee for the fulfilment of the agreement, to replace the plane after a certain time by another worth as much as the borrowed plane was at the time of lending. Even if, instead of paying interest, the worker demanded a certain percentage for the service rendered by him to the plane-owner, the latter might find it to his advantage to strike the bargain. This proves simply that the interest claim is not due to the productivity of capital but to supply and demand. Unfortunately, there are artificial obstacles in the way which prevent the unlimited supply of capital, and I shall presently show that interest takes the foremost place among these obstacles. We shall see that interest is mainly responsible for the unnatural conditions which put a bridle on the productivity of capital in the hands of labour; while the productivity of capital, when unfettered, kills interest; thus there is positively no filial relationship between the two powers. Stranger still than the attempt to trace such relationship are the errors of those economists who find the fatherhood in another source:

The Element of Time.

It is only by confusing cause and effect that this theory ever found favour, for, *à priori*, it ought to have been considered that, as far as the products of human labour are concerned, the work of time is more of a destructive than of a creative nature. Unless new labour is continually applied, all products tend to lose in value. Even where they are practically indestructible—

as gold or platina, for instance—they must be guarded if the owner wants to conserve them ; and guarding is labour, while storage means rent besides. Exceptions, such as the ripening of crops and the increase through breeding the domestic animals, are only apparent, and are caused by omitting the analysis of all the economic factors at work. In the first place, the additional value is due to the labour employed. Then we have the use of land, represented by rent in our calculations. If we also add interest, it is done only because interest is elsewhere obtainable for the capital thus invested, and consequently must be added to the price. If this capital were obtainable free of interest, the cost and proceeds of crops and cattle, of old wine and brandy (mentioned specially because their higher price due to age has been given as a proof of the interest-creating force of time), or any other product, would not exceed the cost of labour and rent combined. If profit is added besides, interest forms no part of it, unless interest has to be paid for the capital employed, in which case its addition to the price is *an effect*, and *not a cause*.

There are also economists who make use of the element of time in another sense, in that of putting a higher value on the present than on the future possession of an object. They are not so wise as the well-known boy who, when told that the early bird catches the worm, replied : "So much the worse for the worm ; why did it get up so soon ?" He perceived both sides of the question ; but those gentlemen cannot see that though the present use of something may be more valuable to one party than its future possession, the very reverse may be the case for another. For the hungry man a piece of meat to-day may be worth more than a beefsteak ready for him a week hence ; but by the man with more meat on hand than he can eat within a fortnight, the taste of fresh meat, after a week has gone round, will certainly be preferred to the *haut goût* due to such a long storage. Whether the service rendered to him by the other party, who supplied him with fresh meat a week later in exchange for the meat lent to him immediately, will be as great, greater or less in value than the service rendered by him to the hungry man who might have starved if he could not have gotten the meat at once, is not to be gauged by the individual estimation of such value, but by the assessment which

the market makes on the basis of supply and demand. The wanderer who loses his way and reaches a baker's shop in a starving condition may be willing to give all his wealth for the piece of bread he buys, rather than miss it; but for all that he will have to pay only one single penny, because the market does not consider the personal feelings of the parties, but the general conditions of supply and demand. If the meat owner were the only party whom the hungry, meatless man could apply to, the case might be different; but if there are plenty of others who have more meat than they want, and to whom a service is rendered by giving them fresh meat a week hence for the meat of to-day, the mutual value of the services may not only be equal, but may even be reversed. Less meat may be demanded in return at a later period than has been given, for even half-a-pound of fresh meat is better than ten pounds of spoiled food.

In fact, this illustration does not differ in the least from that where the ready plane and one made after a certain period were in consideration; where the element of time plays exactly the same part. If I thought it worth while to discuss it separately, it was because some most intelligent men have not been able to get out of this special dilemma—Professor Boehm-Bawerk, for instance.

Force of Habit

The habit of seeing interest paid in the transactions of daily life has so confused others that they cannot lift their ideas from this rut, and cannot gain a free outlook. This happened to one of the most clear-sighted men who ever lived—to my departed friend, Henry George. He could not see how a tailor would not invariably sell a coat cheaper for cash rather than accept for it a bill payable ten years later. The fact that, under present conditions, the cash received at once can be invested at interest, entirely hid from him the possibility that where such investment could not be made, and where any saver had to be content if he could invest his savings interest free, without being required to pay for the cost of preserving his capital, some good responsible customer agreeing to pay after a number of years, at a time when the money was needed, might be preferable to one who paid at once. Though I was not successful in

making my friend see the case in this light, I had the satisfaction to hear him state publicly in the Manhattan Single Tax Club, New York—where one of our discussions took place in April, 1893—that if I were right in asserting that interest would disappear with private rent, all he could say was:—"So much the better." With these words he justified my attacks made in "Rent, Interest and Wages," against his theory evolved in "Progress and Poverty": that wages and interest rise and fall together, so that it is to the worker's benefit if interest is high.

The same force of habit is responsible for another theory often heard and just as false: the theory that

Interest is the Reward of Abstemiousness

and that its disappearance would stop saving. We need not enter into the question once touched by the great socialist leader, Lasalle; we need not inquire whose abstemiousness is meant, that of the capitalist or of those who work for him; we need not investigate whether the interest paid in this world of ours is not produced by the abstention of the interest-payers. We need not waste time in admiring the abstemiousness of our Rothschilds, Carnegies, Astors, Vanderbilts, and other interest lords of their class; but it might be worth our while to look a little into the second part of the wonderful thesis, that

Capital Production will stop if no more Interest is Obtainable.

It practically means that thinking and civilised man does not possess even the provident spirit of many animals, such as the bee, the ant, the squirrel, a number of birds, etc. Could the bee reason, it would deem itself very happy in finding all the honey it has gathered at the precise time when required for apiarian consumption; the idea to stop saving, because no automatic increase of the store can be expected, would certainly never enter its insect head. It needs the brains of a professor of political economy to breed such an idea. Take, for instance, the following from the writings of Th. Mithoff, professor at the University of Göttingen: "If he (the capitalist) did not cede the use of his capital to another, he would be able to use it

himself for the purposes of production or consumption. In temporarily renouncing, therefore, the use of capital in favour of others, he makes a sacrifice for which an equivalent interest is due to him. Doing away with interest would cause a great part of the capital now lent out for productive purposes to lie idle or to be used for consumptive purposes; and the growing difficulty of a paying use for capital must very soon reduce the future creation of capital. But as the prosperity and the progressive development of economic life depend on the use of capital in production—doing away with the compensation for the use of capital in the shape of a part of the *entrepreneur's* income and of interest would result in a deep and permanent retrogression of the economic development."

So many words, so many errors.

The Capitalist's Personal Use of Wealth limited

To begin with, capitalists only lend out their capital when they cannot put it to better use for the purposes of production in their own business. There is a limit to such use. The capacity of supervising industrial or commercial undertakings is limited even in the case of the creator of the capital, and much more so with his heirs. There cannot be the least doubt that if the descendants of Astor and Rothschild had to use their capital in business, and could not invest in land, bonds and similar securities, they would have been ruined long ago. It is impossible for the most capable men to supervise such immense investments, risky in the best of cases; and if the supervision has to be left to others, it requires superhuman judgment or unusual luck to invariably select the right man for the right place. If our billionaires had to invest their wealth in this fashion, the opinion we often hear announced—that the big fortunes disperse as quickly as they were gained—might be justified. The heirs of capable business men are often destitute of those qualities which made their progenitors great; and mismanagement, as well as subdivision among the legatees, would soon dispose of the ancestral accumulations.

Accumulations rendered possible by secured Rent and Interest

Unfortunately, rent and interest on certain investments of a different nature have the double effect of not only securing a good income without any risk for the capital, but also of increasing the sum total of the capital much faster than the average number of heirs can diminish it, especially at the well-known low rate of family propagation of the rich. Facts have proved this. Each of the present Astors, Rothschilds, Vanderbilts, etc., is richer than was the founder of the family's fortunes—through the mere accumulative power of interest and rent. We have already seen how pernicious such accumulations have proved to our economic development, and how the very reverse of our professor's expectations in this direction has been verified by the facts of real life.

But not only a productive use in their own business is impossible for our greatest capitalists ; even

Self-Consumption becomes almost Infeasible.

I remember the excitement of the press over an evening party given by a Vanderbilt. The festivity had cost as much as \$200,000, probably far exceeding the expense of any Lucullus or Crassus revel reported in the annals of Rome's worst times. Then, lately, attention was given to the wonderful bed-chamber costing \$1,000,000 erected by one of the golden tribe, named Stephen Marchand ; or the bath of another Vanderbilt costing an equal amount. I do not know anything about Mr. Marchand (who does not seem to be rich enough to deserve mention in Mr. Burnley's millionaire list already referred to) ; I never heard his name to my remembrance ; but I know that Vanderbilt might have given one such \$200,000 party every week, or bought a million bath once a month without consuming his income—and only one such extravagance is reported. I leave entirely aside the usual moral drawn from such prodigalities in a world in which millions have not enough to fence them from hunger and cold, for the worst is that

Our Millionaires are not Extravagant enough.

If they consumed their incomes, the world would be better off. It is just because they save a great part of their revenues that the workers cannot find employment. It is because they have not enough appetite that others have to go without a meal. If they could wear thousands of suits at a time, thousands of poor toilers would be able to buy some clothing. If every penny of their money were wasted in palace building, the poor would be able to procure decent houses. It is just to their saving and investing their savings at interest—that we owe most of our misery, as I have shown in Chapter IV. That this is being recognised is evinced by the following remarks of John T. Gibson in the *Indianapolis News* :

“A few minutes’ thought will convince anyone that the industrious man who ‘lives up to his income,’ and saves nothing, is at least as large a factor in the accumulation of capital as the man who saves. Suppose, for instance, that we would all start in to-morrow and narrow down our expenses to the last notch, ‘cut off everything except oatmeal gruel, and make it thin at that,’ with the idea of saving ourselves rich, how long would it be before we should find that, instead of being on the highroad to greater wealth and higher civilisation, we should be on the back track to poverty and barbarism? There would be no demand for anything except oatmeal, and as no one could sell anything else that he happened to possess, he could not acquire the wherewith to buy oatmeal, and would have to produce it himself or steal it, or starve. There would be no trade; no use for all our fine business blocks, nor for the railroads, nor steamboats, nor factories, nor any of the arts of civilisation. The labour-saving principle of the ‘division of labour’ could not be utilised except on the smallest scale in co-operative oatmeal production. Altogether we should be in a very bad way—a good deal worse off than the Indians were, for they had elbow-room and a game-preserve at their back.”

If the rich spent their incomes, consumption of such immense amounts would give employment to millions who

now are without work, and these millions could save, could gradually become owners of their own means of production, or could improve those now in their possession, and thus bring about a great increase of the present general production. Instead of this, we have seen how the investments of the rich reduce the circulation of credit money, reduce the credit building in which our commerce is carried on, and thus prevent production from keeping abreast of productive power. We cannot produce unless we consume; and the masses are bereft of their full purchasing power through the rent and interest tributes they have to pay to the rich, either directly, or indirectly by means of the tax-gatherer; while the rich, instead of consuming their share, invest it in the purchase of new tribute claims, the only paying investment in the long run, as new production is a losing business where there is not a corresponding consumption. The comparative prosperity of New Zealand's people is partly due to the absence of millionaires and the greater purchasing power of the masses owing to better wages.

Millionaires and Poverty in the Union

The country which boasts the greatest number of millionaires must also boast of harbouring the greatest misery in its cities. One of the latest statistics is given by Charles Spohr, in "The Division of Wealth in the United States" (1900), in which he divides the population into four classes. The two first consist of 1,500,000 families who own 56 billions of the 65 billion dollars at which he estimates the wealth of the country, or \$37,333 each. The other 11,000,000 families own together 9 billions, or \$820 each. He concludes that half of the population is without any property. Seven-eighths of it possess only one-eighth of the national wealth; and 1 per cent. possess more than the other 99 per cent. all together. I think the new census will give a largely increased wealth, and the trusts are precipitating a still stronger concentration. Rockefeller is said to have an income of over 30 million dollars; Carnegie one of over 24 millions a-year.

I shall go on with my analysis of the learned professor's lucubrations, asking the reader's pardon in thus seemingly

wasting time; but it cannot be without profit to eradicate one of the most popular errors, to destroy at its root the idea that demon Interest is in reality a beneficent Ceres, out of whose cornucopia the incentive to all wealth-producing industry is poured over humanity.

The professor's contention that interest is due as an equivalent for the sacrifice of the capitalist has already been dealt with, and so has the fear that without interest a great part of the capital would be used for consumptive purposes. Something has to be said, however, of the alternative given by the learned gentleman in the words

"Or to lie idle."

I wonder how the way in which this capital would lie idle presented itself to his mind. He can hardly have been so *naïf* as to imagine that the rich would put in a stock of gold or coins; for he probably knew that the whole gold stock of the world does not much exceed 800 million pounds, and that the savings of the rich in the United States alone outrun this amount more than ten-fold. And even supposing that there were gold enough to be got for the purpose, the supply of the useless stock would keep millions busy whose consumption and savings would fertilise industry in all other departments of production. Even under this impossible supposition, the wealth accumulations of the rich would do more good than they are doing under the dominion of interest.

How, then, are they to lie idle? As creditors in the books of the banks? In this case the banks would lend the money out. Even if they only got the risk premium they would make a profit, as they certainly would demand some compensation for becoming the storekeepers of their rich customers. As that part of gross interest which pays merely for the average risk of lending is not interest proper, the workers would obtain capital, interest free, and would make good use of it.

Or does the learned gentleman suppose that the savings are received in the shape of products of some sort? Were this so, the rich owners of these products would have to pay for their storage, and for the work required to keep the goods from deterioration. They would soon find that the best shape in

which they could store their wealth would be in means of production of some sort, which the workers could utilise, and thus make self-sustaining. This certainly would not mean lying idle.

Nor could investments in land be meant, because they would bring a rental income, which means interest on the purchase capital ; which cannot be called lying idle. Besides, the money paid for land as well as that spent for the other things, goes to somebody and thus circulates—does not remain idle.

Fortunately, not all our economists are of the professor's calibre.

Turgot's Simile

The following quotation from Turgot—one of the greatest financial authorities and economists of France—reveals the very opposite consideration of the part played by interest in our economic life :

“ The rate of interest may be looked at as a kind of level below which all work, all culture, all industry, all trade ceases. It is like a sea spread over a vast country : the mountain tops rise over the waters, and form fertile and cultivated islands. As the sea level sinks, the declivities of the mountains, then the plains and valleys, appear, covering themselves with produce of all kinds. It is sufficient for the water to rise, or fall one foot to inundate extensive shores, or to render them back to culture. It is the superabundance of capital which enlivens enterprise, and the low rate of interest is at the same time the effect and the mark of the superabundance of capital.”

Interest holding back Civilisation

The most superficial glance around us will show how Turgot's beautiful picture corresponds with reality. Thousands of useful enterprises everywhere, certain to benefit humanity at large, to increase its comforts, to cause a further advance of civilisation, to raise the productivity of labour many-fold—enterprises which would gradually pay back the outlay they caused, remain in the state of worthless projects, for the simple reason that a certain rate of interest cannot be got out of the capital invested. The Panama Canal would have been finished long

ago, a tunnel would connect England and Ireland—perhaps also our two New Zealand islands—innumerable railways and canals would evolve into accomplished realities from the state of visionary schemes. Distant mountain-lakes and streams would quench the thirst of large cities now satisfied with impurer supplies; mountains over which the stage coach now winds its tedious way would be tunnelled; valleys would be spanned by viaducts; and rivers—which now are crossed in primitive fashion—by bridges. The whole face of the world would soon present an aspect differing in its progressiveness as much from the world we know as this is in advance of that remembered by our great-grandfathers. What is in the way? Why have we to leave all this work undone? Can we not spare the labour? Can we not produce the machinery required, the raw materials needed? In a time whose chronic complaint is known under the names of over-production, want of employment and markets, commercial depression, such an answer can certainly not be accounted satisfactory. All know that no greater boon could be offered to millions than the opportunity of setting to work their productive power for the accomplishment of these and greater public works. No danger either of not finding food, clothing, shelter enough for the millions of workers needed to do the work. There is no department of production in which we could not multiply the output if there were a paying demand. In fact, nothing stands in the way except one seemingly insuperable obstacle: *Interest*. The projectors may furnish ever so convincing a truth that the income from the improvement will sooner or later repay the cost, besides keeping up repairs; as long as they cannot also prove that a certain rate of interest can be depended on for the capital invested, they will preach to deaf ears.

**With the Disappearance of Interest, these and
Thousands of other great Works will be
carried out**

within a comparatively short time. Innumerable inventions will come forth to diminish the amount of labour required; and they will no more be fought by trades unions, justly frightened over the prospect of a still greater scarcity of employment for

their members. The field of work will then grow with working facilities. There is not a department of production and distribution where the disappearance of interest would not effect wonders. What—even if he has the capital—makes the manufacturer build a shed lasting only a few years, where a stone building would outlast generations, besides affording better conditions of health for the workers? Interest. The stone house would be cheaper in the end if it were not for the interest it costs, which figures up higher than the waste caused by the periodical repair or replacement of the shed. It is interest which prevents the manufacturer or merchant from keeping more stock than is absolutely necessary, and thus precludes a more perfect division of work; as, for instance, in the case of a weaver who has continually to make expensive changes of patterns on his loom, because working for any length of time on one pattern will cause a too great accumulation of stock, and thus a too great interest loss. It is interest which may some day be mainly instrumental in the downfall of nations dependent on others for their food stuffs, because the fear of interest loss prevents us from storing wheat enough to last us over more than a very short period. We have means to fight moisture, rats, mice, and other vermin; and since wheat found in an Egyptian sarcophagus germinated after so many thousands of years, it is proved that good conditions may preserve grain indefinitely. But we cannot protect it against the destructive effects of interest, which increases its cost with every passing day; so that, finally, it does not pay to keep stock, at any price, as long as we cannot destroy interest.

Interest and Money Reform

The disappearance of interest will take out of the way the greatest obstacle to money reform, in its turn one of the most powerful weapons against the interest fiend. Nothing restricts more the quantity of money which can be kept in circulation, or of free deposits in the banks, than the fear of losing interest—as we express ourselves when we either have to pay interest or fail to obtain it from others. From the poor wage-worker who carries at once to the savings bank every penny he does not absolutely require that he may get interest, to the rich man

who limits his ready money or bank account to his necessities, investing the balance as fast as he can to obtain interest—we witness a continuous restriction of the money stock held on hand. The disappearance of interest would entirely change all this, would largely increase the money stock which could be issued without any fall of its value, or which would be kept in the private banks as a security for depositors, or at the disposal of the State in the free deposits of the State banks.

Interest and Free Trade

The beneficial effect produced by the disappearance of interest would be felt everywhere, even in quarters where nobody would look for it at first sight. Who would think that it would be the most powerful means of introducing universal free trade, by making free trade what its defenders suppose it to be, but what, as I have shown, it is not by any means: fair trade? It will not prevent the payment of imports by debt, but it will withdraw the self-multiplying power from this debt, which now often makes the cheapest market the dearest in the end. Debt, as has been said in Chapter V., will simply mean deferred payment by exportation. The delay, instead of causing loss, will only benefit the debtors who have the free use of the capital.

These will be the results of interest's exit from this world of ours, not those foretold by the blind bookworm of Göttingen University, and others of his ilk. The simplest calculation should have shown him the stupidity of his prognostics, should have taught him that, instead of being a stimulant,

Interest is in Reality the greatest Obstacle to Saving.

If a man wants to retire on a yearly income of £500, he will save £10,000 if he can count on 5% interest, unless he buys a life annuity for even less money. The lower the rate of interest the more will he have to save, and if interest is unobtainable altogether he will have to save capital enough to last him for the balance of his life. He may have to go to an insurance company and pay in the sum corresponding to the average of years which statistics allow him, plus cost of administration. The calculation is much simplified by the absence of

interest. If he wants to insure a certain capital to his family after his death, he will have to pay the yearly premium which corresponds to the sum, divided by the average number of years he is expected to live, according to statistics, plus a trifle for cost of administration. In either case he will have to save more than would be requisite where the interest obtained by the company enables it to be content with smaller payments. If a life annuity, to date from a certain age, or from invalidism, is desired, enough has to be paid in to correspond to the annuity multiplied by the number of years during which statistics promise him the enjoyment of the annuity, plus cost of administration. Whether he pays the money in by yearly instalments while he is still working, or in one lump sum, will then make no difference, as interest no more enters into the calculation. Anyhow, he will have to save much more for such a purpose than he would in our interest-paying world. Supposing he wants to retire at the age of fifty years, and to insure an annuity of £500 to his family up to the death of the last survivor. Let us say the number of years during which the annuity has to be paid is estimated as forty, the man will have to save something over £20,000, or at least double the amount he would need under present conditions. And even then he will have saved only for the living generation; if he wanted to commit the folly of saving also for unborn descendants, his accumulations would have to grow correspondingly, instead of needing only the insignificant increase of the interest *régime*. Thus much more would be saved than in our time, and such savings would become what our present savings are wrongly supposed to be: blessings, instead of curses—which the latter really are. They would result in an increase in our means of production and communication, as well as of all amenities of life. They would help to raise the general income and welfare. Until the saver consumes his economies they would take productive form, benefiting his fellow-men; and the world, as well as he, would be better off than if he had consumed at once what he produced. More would have to be saved to live without work, but much more could be saved in a world freed from the hampering effects of interest.

I have already drawn the picture presented by our present savings under the reign of interest. I have shown how the

creation of generations of do-nothings is by far the smallest evil resulting from such accumulations, but that the constantly increasing obstacles they oppose to the maintainance of production at the level of productive power are the very root of the social problem of our time. In the next chapter I can more clearly show in what way interest is responsible for this state of things—which was infeasible as long as the real nature of interest remained in the dark. But so far, I have only shown what interest is not. I have proved that it is not the outcome of the productivity of capital. I have explained that it is not the product of capital, the child of the element of time, nor the just reward of abstinence. I have made clear that, instead of stimulating production, it keeps it back ; but for all that, I have not yet shown its real nature and parentage. This we have now to elucidate.

Interest is a Tribute

due by one set of men to another. That this is its nature, that it is a tribute and not a product, is made clear by the simple fact that all men could as little live on their interest income as all could live by burgling or by taking in each others' washing. Somebody has to pay interest, or others could not live by it. That interest is a tribute, and not a natural product of capital, time, or anything else, can also be demonstrated by simple

Arithmetical Proofs.

Proudhon says in "Qu'est-ce que c'est la Propriété":

"If men, united in equality, gave to one of their number the exclusive right of property, and if this single proprietor placed with humanity a sum of 100 francs at compound interest, repayable to his successors of the twenty-fourth generation after the lapse of 600 years—this sum of 100 francs would, if invested at 5 per cent., amount to the sum of 107,854,010,777,600 francs, a sum 2,696 times as large as the capital of France, estimated at 4,000 millions (50 years ago), or 20 times as large as the value of the whole globe with all movable and unmovable wealth. . . . The Fourierists, those irreconcilable enemies of equality, the partisans of which they look at as sharks, promise to satisfy all demands of capital, of work, and of talent in quadrupling production.

But even if they quadrupled production, if they increased it ten-fold, hundred-fold, property (he means land and capital, with secured rent and interest claims) by its power of accumulation and capitalisation very soon would swallow products, capital, the earth and even the workers."

We know the old tale of the inventor of chess asking as his only reward that the Shah would give him a single grain of corn, which was to be put on the first square of the chess-board, and to be doubled on each successive square; which, to the surprise of the king, produced an amount larger than the treasures of his whole kingdom could buy. It is this kind of chess-game which capital is continually playing with labour. All exertions, all improvements in the methods and tools of labour, the strictest economy, the severest self-denial, are all powerless to compete with the rapidity of self-increase possessed by capital placed at compound interest, and they cannot keep up with its demands.

An Allegory

"Ages had gone by since sinful man was driven from Paradise. The curse (not unmixed with blessings—like all punishment coming from such a source), which forced man to earn his bread by the sweat of his brow, had weighed upon the race with a heavy pressure. The crime had been severely punished; mercy began to prevail. A loving angel was sent down by the Great Master, charged with the task of lightening the burden. The angel's name was *Spirit of Invention*. He began his work by teaching man to make useful tools out of stone, wood, metal, and other formerly useless raw materials. He taught him to tame animals to work for him; and finally he made him master of the elements, pressing them into his service. The mountain stream rushing down to the ocean was forced to turn wheels, and to grind the flour needed for bread, or to saw the logs with which houses were built, or furniture made. The wind, the merry son of the air, had to stoop to the same work, where water power was not available. The curse was lightened, but not taken off; man's wants had increased with the facility of satisfying them, and work was as hard as ever. But the hour had come when full mercy was to be granted to the children of Eve. Fire offered its service. The most powerful of the

elements, though it had condescended hitherto to furnish some comforts to man, as often had proved his deadly enemy. It would have wrought him even more harm if a family feud it had with water had not enabled man to make use of the mutual hate of fire and water to fight one with the other. Now the time had come when the unrelenting antagonism between the two was to be used as a means of taking off the terrible weight of physical labour pressing upon mankind. The deadly foes were imprisoned together in bonds of iron and steel. A fearful struggle began. Water, maddened by the mighty embrace of its enemy, foaming with rage till it turned into steam, tried all its power to break loose from the iron bonds and to kill the fiery element. The angel taught man how to use the terrible power so engendered—to turn wheels, and to do all the heaviest work. Millions of iron giants were in this way pressed into his service, working for him night and day. Far down in the depths of the earth they moved their powerful arms to free the mine from destructive waters, and to lift the treasures of the deep.

“Imprisoned in iron cars, they moved these with a speed exceeding that of the fleetest deer; drawing heavier weights than could the strongest elephants, or hundreds of horses. Pent up in ships, they drove them forth through the waters faster, though heavily loaded, than the best oarsman ever impelled his light craft. But this was not all.

“The angel *Spirit of Invention* again waved his magical wand, and millions of iron and steel goblins came forth skilled in all kinds of work: spinning, weaving, knitting, sawing, grinding, printing, sewing, shoemaking, etc., etc. They were practised in all trades, and their delicate fingers went to work with lightning speed when the iron steam giants were put behind to force them on.

“It seemed that at last the golden era had come of which men had dreamed for ages past, without ever hoping to attain it. Without trouble, with almost no exertion, except that of supervision, man had it in his power to produce boundless wealth for the satisfaction of wants which, in former times, even the richest did not know or dream of. All the luxuries that art and refinement could invent were at the disposal of the poorest, if free scope was given to the wonderful giants and

goblins, the numbers of which daily increased in astonishing varieties.

"It *seemed*, I say, that the golden time had come ; but it had not come. That envious spirit, that fallen angel, Satan, who once before, in the shape of the serpent, had driven man from Paradise by seducing him to sin, from the first moment had watched the work of the beneficent angel with continually increasing disgust and anger. He knew very well that, if the plans of the Holy One succeeded, Satan's empire would be over for ever. Once freed from the cares and troubles of the struggle for existence and the battle of life, man would turn to higher aims the powers God had given him. Art, science, and ethics would celebrate their highest triumphs ; more and more would man break loose from the fetters in which his higher spiritual being was held imprisoned by earthly cares, and, getting into nearer contact with the eternal source from which all spiritual life is emanating, would accomplish the great purpose for which he was created.

"The state of things looked desperate. All was lost if some stop could not be put to the work of God's angel ; but what was Satan to do ? As he looked over the dark army of vices, sins, and follies which had done him such splendid service in past time, to see whether any one of his great warriors could take up the fight with the angel, he perceived nothing but dejected faces. They all knew that they were powerless to battle with the heavenly messenger. He despaired as he looked at that once valiant and victorious army ; when, among the follies of man, he observed one little imp, who, instead of the despondent, mournful aspect all the others were wearing, looked at him in a self-conscious manner which attracted his attention.

"'What is the matter with you, Interest ?' he asked the saucy imp. 'You don't seem to be so dejected as your comrades are ?'

"'Why should I be dejected, master ?' replied the spirit, 'Am I not one of your favourite soldiers ? Haven't I always been victorious under your august guidance ? Why should I be less certain of victory now than I ever was before ?'

"'Alas !' answered Satan sadly, 'you do not know the

power of the enemy we are fighting now. You are no match for the *Spirit of Invention*.'

"'Well, there will be no harm in seeing about that,' answered the imp. 'Suppose you allow me to try a duel with the fellow?'

"'You little imp! Fight the powerful angel who is defeating all my army?' laughed Satan.

"'Yes, I alone; provided, of course, you allow my son, Compound Interest, to help me.'

"'Are you crazy? You, with your weak little arms, want to throttle that immense army of powerful giants, and that more numerous one of wary goblins, who have filled the world by the command of the mighty angel whose brains conceived them?'

"'I intend to do more than this, your majesty. I shall make them turn traitors to their duty. Instead of their being a source of blessing to mankind, I shall make them the producers of untold misery—worse than ever man suffered from thy hands. I shall make man curse them and the angel who sent them. He shall be made to consider them as the source of all his misery, and to use his best powers to fetter them and to keep them from their work by protective, military, and other repressive laws. He shall sigh for the good old times when machines did not yet take away the work from poor humanity!'

"'You will do all this?' asked Satan, with an unbelieving smile.

"'Yes, and a good deal more, if you let me have my way,' answered the imp, full of self-confidence.

"And Satan did let him have his way. The battle of giants began. Yes, it was a battle of giants, and yet only a game—a fight of titans, and yet only a noiseless sport in which the imp was the victor.

"Angel *Spirit of Invention* at first only laughed quite heartily when he saw the being who came to fight him.

"'Do you see those immense armies obeying my commands?' asked he. 'Well, I have only to open the gates of my skull, and just as many more will come forward to fight you, poor little imp. You had better return to the master who sent you, and tell him that his empire is ended for ever, even if he lets loose all the soldiers of hell he commands.'

"‘There is no need for his doing that,’ calmly replied the imp. ‘I alone, together with my son, Compound Interest, whom you see peeping from my pocket, can multiply our number to exceed any amount of iron and steel chaps from your empire. Look here, my friend ; before we begin the fight, let us first muster our forces ; and to end this business in a peaceful way, I will make you a proposal. Look at this chess-board. It seems just like any other chess-board, with sixty-four squares, but it has the peculiar quality of extending the dimensions of the squares, so as always to be large enough to accommodate all the soldiers we shall place upon them. Now, listen well to what I propose. I enter the first square with my son, and you match one of your warriors against us. We enter the second square doubled in number ; you send two more warriors—and so on every succeeding square. We agree that we shall never more than double, and we further agree that when we arrive at the last square, and you have a single soldier left after occupying the same, we shall declare ourselves vanquished, and Satan with all his troops will leave this world for ever. If I win, you and your army are to be at the commands of my master. Are you agreed ?’

"‘Am I agreed !’ laughed the angel, as he glanced over the untold millions of his soldiers. ‘Why, certainly, my friend. You had better send word to your master to pack his luggage as quick as he can.’

"‘All right, we shall see !’ said the imp, in calm, business-like tones. And so the ominous game began.

"In the beginning the angel laughed, for, though twenty squares were passed, no noticeable diminution of his forces was perceptible. Demon Interest said nothing, but attended to business, quietly doubling his army on every succeeding square. At the thirtieth square the angel ceased to laugh, and a few squares farther on he had to open the gateways of his fertile brains as wide as he could, urging on his new troops with all his might. Only one field more, and he had to stop exhausted. He saw he was lost.

"‘I despised you, little fellow,’ he sighed despairingly, ‘and I am punished for my vanity. I see there is no use fighting against you. Demon Interest is more powerful than the *Spirit of Invention*. I am your slave. Command your servant !’

"‘I am only the servant of my great master,’ dryly replied the demon. ‘Here I see him coming. He will give you his orders.’

"And Satan gave his orders. He commanded that the angel was to continue in his work with all his troops, which were to be increased with all possible exertion, so that humanity—which did not know the nature of the antagonist it had to fight against—would always keep in fresh hope of final success when the new troops were forthcoming. But as fast as they appeared, Demon Interest was to send forth a larger army to capture the new forces, to enslave them, and—instead of their benefiting man—make them increase the slave-chains which weigh him down.

"It was a devilish thought, as could rise only in such a head. Just what gave man new hope had to be the means of deepening his misery. What to every human eye appeared an unmixed blessing proved to be the incomprehensible source of greater need. Satan had been victorious far beyond his expectations, for those consequences of the battle of life, always more intensifying and growing wilder—poverty, ignorance, crime, vice, and hopeless misery—appeared more in evidence from day to day, and there was no hope of reform, because the wise men of the world proved the impossibility of indubitable facts, reasoning that blessings could not produce misery."¹

But all this only proves that *compound interest* is wrong ; it does not prove anything against *interest proper* ? An objection of this kind can hardly be maintained after one moment's reflection. What is compound interest ? Is it anything else than the fresh investment of earnings of capital ? In what way does the lending of £100 paid to me as interest upon £2,000 differ from the lending of the original capital ? If one is legitimate, the other is ; if one is wrong, both must be wrong. This objection would not hold for a minute, and therefore the mathematical proof is furnished that labour does not earn enough to enable it to pay interest at current rates and obtain decent wages, or even get any wages at all.

Jonathan Duncan, in "The Principles of Money Demonstrated, and Bullionist Fallacies Refuted," comes to the same

¹ This allegory is taken from my "Rent, Interest, and Wages."

results, 50 years ago, when he contrasts the increase of claims through interest and the increase of money in which the claims are due. I quote the passage, suggesting only the addition of the word "sufficiently" in the second line between "cannot" and "increase." He calls Wealth or Merchandise *real* money.

"Neither is it just to charge metallic interest on the loan of metallic money, since the metal cannot increase, and therefore the interest can never be paid in kind. It must be commuted into labour, or the produce of labour, and infallibly leads to slavery. Suppose, for example, that England, at the present day, possessed the precious metals in coin to the amount of 28 millions, and having no paper money, were to require, as she does, increase on all loans of money at the rate of 5 per cent., every man who had borrowed £100 ought, at the end of the year, to be possessed of £105 in coin, or he cannot pay his debt with increase. One hundred thousand such men, having borrowed 10 millions of pounds, ought, at the end of the first year, to be in possession of half a million more, and in twenty years, not reckoning compound interest, their debt, with interest, could not be paid with less than 20 millions of pounds sterling. Now, where are these additional 10 millions to be found? Not in England, certainly—nor abroad, for all other nations take increase too, and their wants are in proportion to their capital. These men, therefore, go on for twenty years paying capital, by which time the whole of the money which they borrowed has been returned to their creditors; but the principal debt has not been paid, and now cannot be; they are insolvent to that amount. It may, however, be said that their creditors would have taken *real* money for increase if they could not get coin. But how can real money be paid under the present system without the intervention of coin? A further disadvantage naturally operates against the debtor; the country becomes more thickly peopled; young men of enterprise, in greater number, commence business; the money that was sufficient twenty years ago to give every man a 'bellyful,' will now scarcely suffice to give every man a 'mouthful.' Competition lowers profits; men cannot thrive on a decreasing trade, and he who borrowed when he commenced his career, with every prospect, as he thought, of returning his friends the loan with which he was

assisted, finds himself, at the end of twenty years, he knows not how, farther removed than ever from the accomplishment of his wishes. He is, in fact, ruined by the utter inadequacy of a metallic currency to expand with the growing energies of the country."

It is related that Napoleon Buonaparte, when shown an interest table, said, after some reflection: "The deadly facts herein revealed lead me to wonder that this monster Interest has not devoured the whole human race." It would have done so long ago if bankruptcy and revolution had not been counter-poisons.

Private Land Ownership the Mother of Interest

Having thus settled the nature of interest, let us look for its parentage. Even here we are not on untrodden paths, for one of the parents has already been found by Calvin. So long as 350 years ago the great reformer, answering the arguments of Aristotle, who thought the taking of interest unjustifiable, because money put aside cannot produce money, said:

"It is undoubted that money does not produce money; but with money land is bought, which produces more than the returns for the labour applied to it, and which gives a surplus income to the proprietor, after all expenses for wages and other things have been met. With money a house can be bought bringing a rent income. Objects with which things can be bought, producing incomes by themselves, can certainly be considered as bringing incomes themselves."

If I have £100 worth of goods of any description, with which I can purchase a piece of land, bringing £3 worth of rental income, I should certainly be foolish if I lent this £100 in money or goods of any kind to anybody unless he paid me at least £3 a-year for the privilege of getting the use of my capital during that time.

Through making land an object of commerce, like boots and shoes, like watches and houses, we have given it a merchandise value; and rent has become the interest on the market price of

land. Rent by itself is no tribute in the sense of an extortion; but an addition to labour's product due to the ownership of land. It becomes an extortion only where this ownership is usurped by individuals, not where it belongs to the community; where the product goes into private pockets, instead of into the common purse. One wrong leads to others. Through allowing monopolists to usurp the common inheritance, through making the property of humanity an object of commerce, a merchandise, the income which this merchandise produces has infected all other articles of commerce, all kinds of merchandise; for if the interest income from land values is not a tribute, but an inherent property of one merchandise, why should it not be that of all others for which it can be bought? Thus rent, through appearing in the shape of interest on land values, became the progenitor of interest on all other mercantile values.

Land, though the principal and original source of incomes obtained without work, is not the only one. Every secure monopoly partakes of the same nature. If the State issues certain scrips called Government bonds, by the ownership of which can be secured the monopoly of claiming as private income a certain part of the taxes collected by the State, or in other words, the privilege of making use of the whole power of the State to force the workers into paying to the owner of the bond a certain portion of their earnings through the intervention of the tax-collector, then everyone who has capital in hand, which somebody wants to borrow, will demand and obtain as much interest for the same as can be secured by means of the State bond, with the addition or deduction of the risk premium resulting from a comparison of the securities offered on either side. Railway bonds and shares, canal securities, gas and water work investments, mortgages, etc., partake more or less of the same character.

When I said that the land monopoly was the father of all these monopolies, I meant that if the State had never parted with her rights in the land, there would never have been any Government debts. As the sole land-owner, the sole proprietor of the fountain of all material existence—the possession of which entails the right of levying a tribute from all the inhabitants equivalent to the total of their earnings beyond their

legitimate wages, and even more if found necessary—the State with such a power would always have been the greatest capitalist in the land, so far exceeding all others in the magnitude of her wealth that, instead of ever having to borrow, she would have become the principal lender. She would have been enabled to build the railroads and canals from her own capital; gas and water works, etc., would have been built by the community.

Gold and Silver Legal Tender the Father of Interest

All this under the supposition that she also created her own money; for as long we make one or two scarce products the sole legal tender, the monopolisers of these products can exact a tribute for their loan; and interest, with all its consequences, will continue to exist. This also is not a new discovery; in fact, many of the enemies of interest have recognised that the money made out of the precious metals is the father of interest. On the other hand, as I have shown, land was recognised as its mother centuries ago. The trouble only has been that reformers were usually satisfied with the finding of one parent, never supposing that there might be two progenitors, though such is the order of Nature. However, the parents are near relations; and this consanguinity may be responsible for the monstrosity of their offspring. The joint family name is *Monopoly*.

Gross Interest and Interest Proper

I cannot close this chapter without taking into consideration the great difference existing between gross interest and interest proper, *i.e.*, between the interest actually paid and that quota of it which remains after the risk premium and wages of supervision are deducted. Even men who clearly understand the difference between the two kinds of interest often forget to apply their theory when they come to a practical application. Henry George, for instance, after having shown that he fully understands the difference, forgets it when he speaks of

Wages and Interest rising and falling together,

generalising on the data of California, where the rate of interest and wages fell together. "When common wages were \$5 a-day, the ordinary bank rate of interest was 24 per cent. per annum. Now that common wages are \$2 or \$2.50 a-day, the ordinary bank rate is from 10 to 12 per cent." ("Progress and Poverty," Book I., Chapter I.) This simply means that when wages or ordinary labour were high, wages of supervision were high too. Where—through higher cost of living, greater danger to life and property, and an entire absence of the amenities of life—a wage-worker obtains twice as much as in other countries, usually bank officials also receive a proportionately higher salary. To this, in the case given by George, we have to add the greater risk run by capital. Distance from the investor by itself is an element of a certain importance, as every capitalist prefers to take less interest nearer home rather than more interest at a distance, where many months have to pass before he can hear from his agents, and many more months before he can pass them instructions. We must not forget that this was the case in California at the time when the 24% interest was obtained, when neither railroad nor telegraph connected the Pacific with the eastern cities, and when no cable was laid between these and the European capitals. The degree of security for property and life is another element not to be forgotten. In short, we may safely say that whatever an investor receives beyond the rate of interest obtainable in his country on best security is not interest proper, but risk premium and wages of supervision. For one man who, after paying agents' commissions and other expenses, obtained four or five times as high a rate of interest for his Californian investments as he would have received at home—perhaps four others lost, or anyhow, might have lost, every penny they invested. The additional income thus obtained all round, if there was any, was not interest proper, but the reward of a clear foresight, of correct calculations, informations and knowledge not available to the ordinary investor; in other words, wages of supervision or organisation, business profits. We might just as

well say that the usurer in London who succeeds in obtaining 50% interest without losing his capital has really got so much interest; in a city where, at the same time, the Bank of England rate is 2%, and where money on call can be obtained on best security at 1%, as actually was the case about five years ago (1896). By far the greatest part of his 50% is risk premium, the risk comprising not only that of his money, but also of his good character, if he possesses such a thing; the balance was wages. His trade is not the only one where these wages are abnormally high through certain contingencies connected with the work. The wages earned by a successful burglar, pimp, blackmailer, etc., belong to the same category.

I should not have spent so much time upon this theme if it were one of merely theoretical importance, as I am no great friend of theories which have no particular influence upon practical life. The fact that undue weight has hitherto been attached to worthless disquisitions on categories and terms is responsible for the title of "dismal science" which Carlyle gave to political economy, and for its bad repute the world over. But this

Distinction between Net Interest, or Interest proper, and Gross Interest, is one of the most Momentous in practical Life.

For the producer and trader it matters very little at what rate bankers can get money upon good collaterals, but very much what he himself has to pay for it. And, strange as it sounds, the lower the rate at which the bank can obtain money upon good securities, the higher the rate usually is which the producer and trader will be forced to disburse; and when the interest paid by the banker is almost at zero, the ordinary producer and trader cannot obtain money on any terms. This paradox is easily solved.

We must keep in mind that business is usually not done with real money, but by means of credit; and whenever prices are falling through the sluggishness of the market, credit is reduced; or, as it is almost impossible to correctly place cause and effect in such a case, whenever credit becomes stiffer,

prices fall. Anyhow, effect and cause react upon each other as they usually do. Whenever business investments tend to become more risky, capitalists prefer to retire their money from such investments, and temporarily place it where they can dispose of it at any time, even if they have to leave it interest free in their banks.¹

The investments preferred under such conditions are consols, loans upon the deposit of good papers, or discounting of first-class bills of exchange. Smaller capitalists go to the savings banks, and deposit the maximum permitted; often opening accounts in the name of wife, children, and other relations to get around the maximum clause. The greater demand for this class of investments raises their price, or, which means the same thing in this case, depresses the interest rate. In this way the low interest rate of these investments and the increase of the larger savings bank deposits² usually is the sign of a stagnancy in business, of an increasing want of employment, and absence of

¹ Arthur Fonda says in "Honest Money" (p. 109): "The accumulation of money in banks in times of depression indicates, not too much money, but a general belief that its value is rising, or a fear that it will rise—testifying, if to anything, to too little money, in fact. Men do not hold a thing that brings no income, unless they expect to profit by its rise."

² Generally accompanied by the decrease or disappearance of many of the small deposits, a fact now hidden because generally deposit statistics are not classified, and thus its figures are made to prove the very reverse of their real meaning: prosperity instead of poverty. Our excellent New Zealand Registrar-General, Mr. E. J. von Dadelszen, to whom I am indebted for his "Statistics of the Colony of New Zealand for the Year 1900," gives (p. 309) the first classified savings bank statistics I ever met with. It is true they only give the accounts of the Postal Saving Bank, but this bank does seven-eighths of the New Zealand savings bank business. Even here, however, there is room for further improvement. The lowest class, not exceeding £20, ought to be further subdivided, and the average balances of each class should be given. Taking the medium figures of each class: £35 for the second "exceeding £20 and up to £50," £75 for the third of £50-100, etc., £600 for the highest of amounts exceeding £500, and deducting the figures thus obtained from the total balance of £5,809,552, only £458,146 are left for the 142,368 depositors of the first class or an average of £3 4s. 5d. As there were in all 197,408 depositors, this would mean that 70% of the depositors only had an average balance of £3 4s. 5d. each, while 4 million pounds sterling of 6 millions were deposited by 19,003 people, one-tenth of the depositors, *i.e.* those with balances exceeding £100. Only 4% had balances exceeding £200. But, of course, no exact calculations are possible as long as we are left without the actual average of each class.

confidence generally. It is natural that under such conditions the risk premium rises, and thus the low rate of interest at exchange is generally accompanied by a high rate of the interest demanded for capital required for productive purposes. Thus we can safely say :

The lower the Net Interest the higher is the Gross Interest

the interest paid by producers, and consequently the lower are wages. The case of California, at the time of which George speaks, was different ; because that portion of the risk premium comprised under wages of supervision was particularly high, and for the very same reasons already mentioned which raised ordinary wages. In older countries this element is in the background ; wages of supervision fall with other wages ; but the risk premium rises through causes among which, as the next chapter will show, the low wages play a prominent part. Thus we can also safely say that, as a rule, wages are high where gross interest—the interest which the producer has to pay to the capitalist—is low ; and wages are low where this interest is high. (See also p. 362.)

Laws against Interest useless

After what has been said in this chapter, it is hardly necessary to add that demon Interest will never be exorcised by legal enactments which forbid the taking of interest. Signal failure has accompanied all experiments in this direction. When the canonical laws prohibited the taking of interest in the Middle Ages, money was locked up, and, as the inevitable result where the money monopoly is given to scarce metals, trade languished. In such a case it was a choice between the deep sea of stagnation in all intercourse produced by the blocking up of the circulating medium of exchange and the devil Interest whose enticements allured the money back from its hiding-places. Under such circumstances, the privilege of taking usury which was conceded to the Jews was not meant as a favour to them, but was the result of an actual necessity.

No direct attack against the arch-enemy has ever been of

any use. Only by cutting off the roots : private land ownership and the legal tender monopoly given to a money made out of the precious metals, can we kill the noxious weed. A well-known method by which the canonical laws were often circumvented has proved this. The borrower made a bill of sale of some land to his creditor for the debt, by which he became the tenant of the land whose rent represented the interest on the borrowed money. When the loan was repaid, the land reverted to the former proprietor.

CHAPTER VIII

CAPITAL AND CAPITALISM

Definitions of Capital

WHAT is capital? Economists are at loggerheads when asked to define this important factor of their science, and their definitions mostly differ from what is popularly understood by the word. So, for instance, may we hear every day: Brown has invested his capital in land. If this means that Brown has bought and spread manure, made fences, dug a ditch for irrigation purposes, or laid drains to desiccate the land, it agrees with the most general definition given by our economists; for Brown is using wealth for the production of wealth. But this is not at all what is usually understood when we speak of investments in land. If we say Brown has invested his capital in land, we generally mean that he has bought land which henceforth is his capital. The rental income from this land is now the interest of Brown's capital, and the sharp division which most economists make between land and capital, between rent and interest, is blurred altogether. Some economists, by adopting a definition more in accordance with the popular conception, escape this dilemma, but fall into another. While defining as capital anything which produces an income, and thus ceasing to make a distinction between the products of man's labour and land—the substance and surface of our globe, the Divine Creator's gift to all men—they also include under the heading of capital human talents and skill, such as a good voice, or the gift of acting, drawing, composing, the skill of the artisan as well as the knowledge of the professor. They, too, keep in touch with the popular meaning, for we all know how often we have heard such expressions as "Patti's voice is her principal capital," or, "the most valuable capital possessed by Rubinstein

was his wonderful art." Unfortunately, here again we find two conceptions thrown together which to keep apart is even more important than the distinction between land and products of labour, *i.e.*, wealth ; no distinction is made between capital and wages. I hope I need not explain that any income received by a person from his work falls under the category of wages, whether he works on his own account or for another individual who pays him a fixed or variable amount, whether the labour is done manually or intellectually, whether by means of the carpenter's hands or the dancing-master's feet, the throat of the singer or the resisting powers of the professional faster's organism. If certain accomplishments which increase the wages earned by the worker—be they the vocal powers of a Patti, or the planning skill of a cabinet-maker—are to be divided off as capital, if skilled labour is to yield wages and interest while unskilled labour only produces wages, where shall we draw the line, and how are we to get out of confusion when we discuss the relation between interest and wages, one of the most important tasks of sociology ? ¹

As it seems impossible to give a generally recognised definition of Capital in the same way in which we can define what is meant by a horse, a chair, or a house, we must formulate a definition which shall be useful and at the same time fairly compatible with popular meaning. I define

Capital as Property which can procure an Income without any Work on the part of its Owner.

This definition comes also nearest to the etymological meaning of the word *kephalaion*, *caput*, the head, the principal, as distinguished from the expected interest or usury, the unessential. In this sense Patti's larynx is not capital, as it cannot be used to produce an income without her own work, nor is the skill of a worker of any kind his capital ; whereas land is capital, as it produces an income without the work of its owner.

¹ I purposely do not say profit and wages, as my business is only with the interest component of profits. Wages of supervision and organisation, the other component, fall under wages ; and what remains is rent and risk premium, or lottery gains, amply compensated by losses, as we shall see yet farther on.

Orthodox Definition confusing

I now proceed to give my reasons for considering my definition specially useful when compared with the orthodox one.

1. The latter cannot serve any useful purpose whatever. This definition which separates as capital any kind of wealth used for reproductive purposes, creates—not a category of definite objects—but one of temporary and changing uses. There is not a single kind of wealth which could not be simple wealth at one moment and capital the next. The piano in my drawing-room, until now only used for my pleasure, was simple wealth in the morning, but became capital the moment I gave my first paid music lesson on it in the afternoon. Bread bought for my table is wealth, but changes into capital with my change of mind which destines it to serve as provision in a fishing expedition. My horse was wealth as long as I used him merely to take my daily exercise on his back, but has been capital since I hire him out for money. On the other hand, even a machine may change into simple wealth from having been capital if it is presented to a museum. Of what practical use can it possibly be to create a special division of wealth with such flowing boundary lines?

2. The orthodox definition is not only useless, but positively dangerous, because, instead of bringing light into an important problem, it merely makes matters worse confused.

Throws together Tools and Tribute Claims

When an orator or writer has to reply to a socialist's attack upon capital as the oppressor of labour, he points to what orthodox economy calls capital, and speaks of our wonderful progress due to our improved means of production and distribution, whereas his antagonist thinks of Government bonds, of land monopoly, of mining rights, of all kinds of tribute claims selling at Exchange for certain amounts, and not at all falling under the orthodox definition of capital, though representing that capital which people principally have in view when they use the term,

It is here that precision is of the utmost importance. It can by itself produce neither good nor harm whether we call a horse capital or mere wealth; the animal will not pull one ounce more weight, nor will a violin change its quality, whether it is wealth because we only use it for our amusement, or whether it changes into capital when we play on it for pay in an orchestra. But it is of great consequence to waive aside with a Podsnapian gesture the dangerous tribute claims as not being capital, fixing our gaze with exclusive regard on the most innocent and even useful objects in the world—the means of production. The fatal effect which such a classification must exercise upon an exact recognition of the social problem will be better understood when we come to realise that the means of production would be far more abundant, and would be freely at the disposal of labour, were it not for that other kind of capital contemplated by its victims and ignored by the panegyrist of the tool capital.

Perfection v. Ownership of Tools

My own definition makes no distinction between the chair on which I take a rest and the same chair when I sit on it to write something by which I gain my daily bread, but it excludes the means of production where they are at the free disposal of honest and solvent workers, and includes them where they are used as an instrument of exploitation. The substitution of the steam plough for the crooked stick with which the savage tickles the soil is certainly very beneficial, but paramount for the masses of workers is the question: Who owns the tool? We certainly can produce more with the steam plough than with the stick, but the stick was owned by the savage, together with the soil cultivated by it, while the steam plough and the land belong to somebody else. Reflective and clear-headed men like Ruskin and Leo Tolstoy, for instance, have come to the conclusion that the advantage is not so unquestionably with the steam plough man as many economists pretend, and the opinion of such thinkers shows that the question of ownership, of the free use of the means of production deserves as much consideration as that of their perfection.

3. My definition of capital thus legitimates its derivation :

Capitalism

i.e., the reign of capital as a means of exploitation. The increasing amount of machinery required for modern production by itself cannot create and constitute capitalism, for even the socialistic state would not renounce technic progress. In fact, socialists expect from freedom a much more extensive use of machinery in the arts of production than has ever been reached under the system of exploitation. A Leo Tolstoy, who preaches the eighteenth century gospel of Jean Jacques Rousseau in the twentieth, the gospel of the hoe and the scythe in the time of the steam plough and the mowing machine, is an anachronism; behind his time in this domain, far ahead of it, unfortunately, in another, in the reign of love and peace he so ardently expounds.

The preceding chapter has shown that the productivity of machinery is not the cause of interest, that if it were not for the possibility of investing savings in land purchases and in a legal tender money made from certain scarce metals, capitalists would be glad to lend out their savings in the shape of machinery, or any other means of production to anybody supplying the work of preservation. That the owners of machinery can levy a tribute from labour, independent of the work of supervision and organisation, is not a cause, but an effect of interest. The interest represented by tribute claims based on monopoly of some sort is the father of the interest demanded and paid for the means of production produced by labour. If the root were destroyed the tree would disappear. This root—the world's tribute claims based on monopoly—once out of the way through the withdrawal of the monopoly base, the workers would soon be the owners of the means of production, and meanwhile would use all such means free of cost, which would eliminate them from the capital category of my definition. Or, in other words, the destruction of capital in the significance I give to the word would, to an incredible extent, multiply capital in the orthodox economist's sense. Capital, rightly understood, is thus the arch enemy of wealth creation, and not its friend. The socialist is right when he

Curses Capital as the worst Enemy of Labour ;

for, with the disappearance of monopoly, capital will vanish and wealth alone will remain, never mind what use this wealth will be put to, whether for reproductive purposes or for consumption and enjoyment of any kind.

Tribute Claim Capital constitutes the Bulk of the World's Capital

This will be looked at as a paradox ; but a single glance at the statistics of national wealth will prove that I am right.

In these statistics, the value of the unimproved land—of course, including the right of way of railroads,¹ the value of mines, canals, harbours, roads (after costs of production and improvements are deducted)—figures up to almost one-half of the whole value of public and private wealth ; but this half, which is nothing but the value of a monopoly, the market price of tribute claims based upon the ownership of this monopoly, and therefore capital in our sense, is only a part of this capital, while the other half is by no means all capital in the orthodox sense.

¹ To show the importance of this right of way and the dangers involved in its possession by private parties, I here quote a passage from the *Public* : " With the recent acquisition of the Southern Pacific railroad, a little group of some half dozen men come into control of all the great highway systems of the United States. They not only own the railways of the country, but they absolutely control the entrance ways into all our large cities. Without the consent of these men no one can make railway connections with New York, Boston, Philadelphia, Chicago, San Francisco, Portland, the cities of Puget Sound, Galveston, St. Paul, Minneapolis or Omaha, to say nothing of other important points. Controlling the terminal facilities, they control the cities, and are thereby masters of the country. To regard this situation as some newspapers and public men do, as being good or bad according to the manner in which the terminal owners may manage the property, whether for the better accommodation of the public or not, is sheer fatuity. The real question is not what use these potentates may make of their unprecedented privileges, but what use they can make of them. These men, with the privileges they possess, are stronger than an absolute monarch.

National debts are mentioned in the tables of national wealth only when they are the debts of another country, which is correct; but in this case they certainly ought to be deducted from the assets of the debtor country, and this is not done. Anyhow, they are capital as here defined, for bonds are property which can procure an income without any work on the part of the owners. Cutting off coupons can certainly not be called work. According to Fenn (edition of 1898) these debts had reached in 1897 the snug little amount of six thousand million pounds sterling, which is about seven times as much as the world's stock of gold in which most of them are payable. To this amount we have to add the indebtedness of public bodies, and the mortgages—after deducting the value of the land, mines, etc., already counted on the other side. In this way, a sum total of capital merely consisting of the market value of tribute claims, which from now I shall call the *tribute capital*, is reached, which by far exceeds that portion composed of products of labour used for reproductive purposes, which I shall from henceforth call the *tool capital*.

The last chapter has shown that with the disappearance of the tribute capital through land nationalisation and currency reform the tool capital will be obtainable interest free, and then will cease to be capital in our sense—will become simple wealth. In Chapter IV., where I explained the cause of our commercial

And their power is not dissimilar. They are not business men uniting their business interests; they are owners of sovereign power, of governmental power, of power which originates not in business, but in law. The cars, rails, station houses and other railway equipment—which belong to them as business assets—are trifles in comparison with their rights of way and terminal rights, which belong to them as creations of sovereignty. Indeed, the time is coming when they will retain no interest in rolling stock, but will lease to business men the business privilege of running trains, while they themselves retire upon the landlord's function of collecting rents for rights of way and terminals. It is evident now that the highways of the country will soon be directed by one master-mind whose power, greater than that of any other man on earth, will control ballot box and cartridge belt as well as rail and tie, unless—and only this can prevent it—the people themselves resume the ownership of their highways and terminals. Such a man, holding the livelihood of all railway employees in the hollow of his hand, would be a spoilsman infinitely more dangerous than the worst boss that political spoils could possibly develop."

and financial crises, and in Chapter VII., where the effects of private rent and interest, its child, on production have been discussed, I have already shown how the tribute capital is the greatest obstacle that prevents the creation of tool capital and of wealth in general. Piecemeal we have gradually begun to understand, and now have only to recapitulate the full meaning of what we are in the habit of designating as

The Social Problem.

We have recognised that the nature of this problem has imperceptibly changed in the course of time. There has been a problem of want, of insufficient productive power rendered more insufferable by an unjust distribution of what little wealth could be produced ; but this problem has been entirely solved by the human intellect, or, to speak more truly, by the divine spirit incarnated in human flesh. The billions of iron and steel slaves all over the world have increased our productive power indefinitely ; for, at our bidding, they could bring forth further billions of their own progeny more powerful even than themselves. There need certainly be no more want if our full productive power were let loose. ~~Plenty of leisure~~, as many necessities and even luxuries as we could reasonably desire, would be at the disposal of the poorest.

This problem, therefore, is one of the past. Its solution required centuries of hard work, culminating in the wonderful attainments of the nineteenth century, which has done more for humanity on this score than all its predecessors combined.¹ But in the act of conquering the old enemy—want through

¹ The best and shortest summary of this progress has been given by Professor E. E. Dolbear of the United States : "The nineteenth century received from its predecessors the horse. We bequeath the bicycle, the locomotive, and the automobile. We received the goose-quill ; we bequeath the fountain-pen and typewriter. We received the scythe ; we bequeath the mowing machine. We received the sickle ; we bequeath the harvester. We received the hand printing press ; we bequeath the Hoe cylinder press. We received the painter's brush ; we bequeath lithography, the camera, and colour photography. We received the hand loom ; we bequeath the cotton and woollen factory. We received gunpowder ; we bequeath nitro-glycerine. We received twenty-three chemical elements ; we bequeath eighty. We received the tallow dip ; we bequeath

insufficient productive power—the very effects of our victory have almost imperceptibly opened the door to another fertile source of trouble. A new social problem has gradually appeared in our midst :

Want through Superabundance.

It is a much more difficult and at the same time a much easier problem. It is much more difficult to fathom, but is much easier, as far as our power of carrying through an effective reform is concerned. When we look back on our achievements in the arts of production and distribution, we can hardly realise that poor human mites could ever accomplish so much. The solution of the problem of want through an insufficiency of productive power seemed almost unattainable, and the wonderful way in which victory has been won seems hardly realisable. It was easy enough to recognise the nature of the problem, but the practical remedy seemed out of reach, and has been found, at last, through the wonderful progress of one single century. The very reverse obtains as to the new problem which the very rapidity of our victory in the field of production has bequeathed to us. However, the recognition of the problem's nature presents the only difficulty, while the practical remedies are easily found, and will be speedily applied when a correct diagnosis of the evil has been generally adopted.

We have recognised that production can only be carried on to the extent of providing all with work if consumption keeps abreast of ready productive power. This is only possible if either the masses obtain, or the rich effectively exercise, a

the arc light. We received the galvanic battery ; we bequeath the dynamo. We received the flint lock ; we bequeath automatic Maxims. We received the sailing ship ; we bequeath the steamship. We received the beacon signal-fire ; we bequeath the telephone and wireless telegraphy. We received leather fire-buckets ; we bequeath the steam fire-engine. We received wood and stone for structures ; we bequeath twenty-storied steel buildings. We received the stairway ; we bequeath the elevator. We received ordinary light ; we bequeath the Röntgen rays. We received the weather unannounced ; we bequeath the weather bureau. We received the unalleviable pain ; we bequeath aseptics, chloroform, ether, and cocaine. We received the average duration of life of thirty years ; we bequeath forty years."

sufficient purchasing power. "Effectively" means that they purchase products of labour, either for consumption and enjoyment, which they cannot do because their wants are not great enough; or for productive purposes, which they will not do because under-consumption leaves the increased production without a market. Investing savings in means of production whose products are unsaleable must result in a loss for the investors. Instead of spending their incomes on Havannas, champagne, and yachts, the rich would buy unsaleable goods and rusting machinery, and there would be no glut. Nor would there be one if their savings were stored in gold and silver or other products of labour, so long as this gold and silver are not the exclusive legal tender for debt.

The Solution

Unfortunately, another field of investment presents itself in the purchase of *tribute claims*, grown from the root *monopoly*. The very rich, as a rule, leave the risky investments in industry and commerce to comparatively poor men, while they content themselves with drawing rent and interest from secure investments. I have shown how the growing accumulation in investments of this sort have the effect of withdrawing securities from the possession of people who banked upon them, and thus created credit money; while the new owners do not need credit, and thus withdraw stone after stone from the credit building erected on our money stock. In its practical effects on the market this is equivalent to the withdrawal of real money from circulation.

Money has been compared to a road between two places depending on each other for the exchange of their products. If the road is blocked, production has to stop, and the quality of the road thus influences the trade of the two places, and consequently their production. By narrowing the road of commerce, by relatively reducing the available money or credit vehicles, the investors in tribute capital impede exchange and, accordingly, production. Thus tribute capital is the greatest obstacle to the production of wealth.

During the nearly twenty years which I gave to the study of

this problem, I could find no other explanation capable of withstanding all attacks. My theory shows us the grain of

Truth at the Bottom of Mercantilism and the Wage Fund Bogey, of the Over-population and Over-production Swindle.

It is all very well to tell the mercantilist that it is not money but wealth which is wanted. It is easy to tell the wage fund humbug that labour all over the world produces the wealth which it consumes; that this production goes on simultaneously, so that wages are produced from day to day; and not only wages, but also the surplus monopolised by the drones of all kinds. Productive power is so great in all departments, inclusive of machinery production, that not only can it supply all the funds required to sustain the workers, but also enough to provide them with the best means of production. I demonstrated in Chapter I. that, under normal conditions, a very small proportion of the world's workers could amply provide mankind with food, clothing, shelter, and warmth.

It is still easier to show how discussing over-population and over-production in the same breath is a most wonderful feat of logic; for either we have more people than we can feed, in which case we can have no over-production; or we have more necessities of life than we can dispose of—which we mean when we speak of over-production—and how thus can we have over-population?

And yet mercantilism, though its theory was not developed, had an inkling of the ominous part played by metal money. So there is a truth in the wage fund theory, because, in our existing system of trade it is not sufficient to possess wealth, but that wealth must have money wings to get over the obstacle to exchange, and as long as the money wings are made of one or two scarce metals or their substitutes, only those producers can reach each other, and thus can continue their production who can command the wing material or its substitute. Only thus do we need a *wage fund*; for, in most cases, without sufficient money, workers have to be dismissed. Only thus can we speak of over-production, for without the certainty of sales goods cannot be produced, and whatever goods fail to

find a purchaser commanding money or its equivalent are over-produced. Only these conditions give us a right to speak of over-population, for where no money is obtainable for their labour and its produce, people must starve, consequently the country is over-populated.

I have shown how a paper money issued according to the requirements of the market, indicated by the price barometer, can put an end to this state of things; how by its means the credit building of our business transactions is transferred from the narrow and relatively unchangeable foundation of one or two scarce metals to the basis of the wide world's productive power. Thus at one stroke we finally dispose of mercantilistic fallacies, of the wage fund bogies, as well as of the over-production and over-population spectres.

Money, not Land, the principal Villain

Henry George, his predecessors and disciples, have rendered an invaluable service to the world by clearly demonstrating the part played by land in the process of distribution. They have gone too far, however, in making the monopolisation of land solely responsible for the miscarriage of economic progress, pregnant with wonderful possibilities, yet bringing forth that horrible changeling known under different names such as: Want of employment, low wages, commercial depressions, over-production, over-population, and our competitive struggle.

Not only have they left out of sight the important rôle performed by Money in the human tragedy, but they have not even dreamt of the possibility that this despised Money might, after all, play the part of the principal villain. And yet such is the case; and this fact once more proves that the instinct of the people often comes nearer the truth than the cogitation of the philosopher at his desk. Even now, in spite of the car-loads of literature which the new, or newly discussed, aspect of the land problem has been responsible for, not one man in a hundred has been touched by this avalanche of learning. The remaining ninety-nine continue to speak of the want of money as the direct cause of the calamity; and the ninety-nine are in the right: *vox populi, vox Dei*. Doubtless no permanent reform can be accomplished without a thorough reform of our land laws. As

long as individuals can monopolise the ownership of mother earth, their pockets will be the final receptacle of her fruits. Every progress in the arts of production and distribution must in the end increase the rental value of the land, and thus be a profit to the rent lord. Less and less land suffices to provide him with all necessities and luxuries of life, and less and less hands are needed to produce them. Every progress in machinery construction, in manufacturing and chemical processes, in the means of communication and transportation, permits him to replace living men by inanimate structures, so that he can refuse the land for productive purposes and reserve it for his amusement. But though even in our days we find plenty of deer and pleasure parks displacing workers who used to make a living on the land thus malappropriated, this as yet is only the exception, and the influence on our economic situation is almost imperceptible, whatever it might become some day, if we were foolish enough to allow such enormities to continue. As it is, billions of acres—two billions in the basin of the Amazon and its tributaries alone—are yet waiting for the hardy settler, and can be had almost free of cost.

There can be no doubt that without the restoration of mother earth to her children, without the liberation of land from the fetters of private monopoly, no reform of any kind can bestow lasting benefits on the masses, but, as in the past, must eventuate in the greater power and wealth of the few, contrasted by the misery and dependence of the many. Still, that time has not yet come, and certainly we have to look for other causes if we want to explain the extraordinary spectacle we daily witness: poverty caused by progress. As yet land goes a-begging, and the money-owner can take his choice; and not in our colonies only.

Still, the bias of preconceived ideas and of inductive reasoning has tremendous influence. In my own case, I had been over ten years in the van of Georgeism before I awakened to the part played by money in the social problem. The veil began to fall at Topolobampo, a socialist colony founded by Americans on the shores of the gulf of California, in Mexico. I had gone there full of the predominant part played by land in the economic process, and I left penetrated with the importance of the money problem. Land was easily obtainable for half a

dollar an acre; but money was so scarce that I was offered half the crop on the settlers' land if I only provided money to buy seed and machinery. The veil was further torn away when I returned to the United States, in July, 1893, just in time to witness the effects of that terrible

Financial Panic

of which I have already spoken. There I found a country which I had left only about two months before in the height of prosperity, or anyhow, of what we modest creatures have been accustomed to consider prosperity, and which presented all signs of the worst distress. Millions of workers were in the streets. factories were closing, and commercial houses suspending payment. What was the matter? There was just as much wheat, live stock, wool, cotton, iron, timber, coal, as much of all good things which human beings require as there had been when I left—in fact, more, because it was harvest time. There were as many willing workers only too anxious to produce all kinds of manufactures, necessities, and luxuries out of the ready raw material. There had been no earthquake, no inundation, no war; but, on the contrary, a great festival of peace. The wonderful International Fair was attracting admiring tourists from all parts of the world. Nothing was wanting except one of the most useless things in this world: a certain yellow metal, easily dispensed with, and whose loss would be a trifle compared with that of iron. There was not gold enough on hand to pay more than a mere fraction of the gold debts, and the whole circulation of the country was threatened; which, of course, lamed production in all its branches. A blind man would have seen that land alone cannot do everything, and at last I recognised the great problem in all its bearings.

Enthusiastic as I have been, and eager as I still am for land reform, I have gradually come to see that currency reform is more urgent still—that, in fact, land reform could be reached much quicker and easier if money reform preceded, or anyhow were carried parallel with it.

Money Reform is the Thin End of the Wedge,

because the impression that there is not money enough in the world to go round is very general, while only a few can penetrate

through confusing externalities to the real significance of the land problem.

Arthur Kitson, in "A Scientific Solution of the Money Question," says: "In vain ministers preach the gospel of Peace and Righteousness. In vain Peace Societies are established. The 'Gold Standard' means inevitable war. Nations cannot possibly remain long under it. The nations 'born of thee are fire and sword, red ruin, and the breaking up of laws.' It is strange that land reformers are so absolutely blind to this fact. One never hears of money-lords begging for land on which to employ their wealth. But landlords are continually becoming indebted to the money power for the use of money. In other words, land is far more plentiful and more readily procurable than money. And to-day money is made more essential to men than land. *And into the hands of the money power the land must inevitably fall.*"

It is difficult for land reformers, for men who have studied the great question in all its bearings, to realise how absolutely incomprehensible to most of their fellow-men something may appear which to them has become a mere truism. When, in the beginning of the eighties, before I knew anything about Henry George and his ideas, Dr. Theodor Stamm, one of the pioneers of land reform in Germany, told me that the land question is at the bottom of the social problem, I looked at him with a dubious smile. I had then been in practical business over twenty years, and had lived and worked in different countries. I had studied more than the average man, and yet my mind could not grasp that strange idea so absolutely new to me. I remember that I referred him to my neighbouring factory, to the wealth it represented, and to the comparatively small value of the land it was built on. We were talking amidst fine buildings situated in a thickly settled town; and looking at those costly houses around us, filled with most expensive furniture and other treasures, I could not understand how the little bit of land on which the erections stood should be of more importance than all this wealth. I needed some study before I realised how true my old friend's words were, and then I found the same smiling unbelief wherever I first preached the gospel. But where the ignorant, who, in the fields of economics, at least, form the immense majority,

minimise the influence of our land laws, they are rather inclined to form exaggerated notions of the effects that may be expected from changes in the currency. Therefore, in general, the reformer must modify too sanguine expectations from currency reform, while he has to break virgin soil in the land problem. Land reform is a *terra incognita* to most people, while all see that we are in money difficulties, and circumstances will force paper money on us sooner than most realise, at least in the colonies. There, it is not really a question of paper or gold, but *paper without, or paper with, a perfect value standard.*

But this is not the only ground on which I base my conviction that currency reform has to come first, if both reforms cannot be carried simultaneously. It is certain that

Currency Reform would give a Strong Helping Hand to Land Reform

from the very beginning ; while land reform would then reciprocate with a powerful support against the greatest enemy of a perfect currency : Interest, the root of capitalism.

If the land of the nation has to be bought after the new money has been introduced, it will certainly be paid in this money. I do not mean by this that the State could all at once issue enough of the new money to pay for the whole land, for this would result in a considerable depreciation of the money, whose quantity would in this case largely exceed the requirements of circulation. But anyhow, a certain portion of the land could be thus paid, and probably a much larger portion than we are at first inclined to imagine ; for a considerable part of the money paid to the land-owners would be deposited in the banks until chances of better investment offered themselves. The greatest part, however, would have to be withdrawn by the State through the issue of Government bonds payable in the new currency. As these would be secured by the whole land of the country, mortgaged for them, and as land-owners and mortgagees must find new investments for the money they obtained, the rate of interest would not exceed 3%. There need to be no fear that the bonds will not be placed at par at this rate. In case of need the State could reserve the option of issuing State bonds for the land, as has been proposed for New Zealand by Mr.

Edward Withy in a very ably written pamphlet: "How to Nationalise Ground Rent" (Auckland, 1894).

The rate of interest ought not to be fixed for any definite period—as has unfortunately been the case with all our New Zealand loans—thus inflicting great losses on the community. The State ought to reserve the right of converting the bonds at any time; of giving the holders the option to accept their money or a reduction of the interest rate. I shall show that, even without a currency reform,

The Market Rate of Interest is bound to fall much faster in a Country with Nationalised Land

than where private property in land exists; though, even with such private property, experience has shown that the rate is slowly descending. We have already seen that the rate of interest proper is dictated by the tribute capital market; for this capital alone offers perfect security, and thus eliminates the risk premium. Two species of tribute capital have principally to be considered: investments in land and investments in the bonds of the State and other public bodies. Their rate of interest in a country is generally the lowest at which money can be obtained there for long terms. The country itself may not offer the same guarantees as others, and consequently the rate may be higher there than elsewhere. English consols in ordinary times yield only $2\frac{1}{2}\%$ interest, while the lowest rate of interest at which New Zealand can at present obtain money is $3\frac{1}{4}\%$; and there are countries which would be happy to place their bonds at par with 5% interest. Usually, capitalists prefer to invest in their own country, even if a little more interest can be obtained elsewhere. One likes to have his capital under his eyes, and where it can easily be converted into money when required. Besides, the laws of the country can fix those securities which trustees are allowed to use as investments for widows and orphans; and the exclusion of foreign securities has the natural effect of raising the value of the domestic ones.

There may be a difference in the rate of interest obtainable on bonds and in land investments. Different causes may come into effect therein. In the case of the bonds, the term during

which no conversion can be made has ordinarily a reducing effect on the rate, while taxes or the possibility of taxation may raise it.¹ In the case of land purchases the anticipation of a rise of value reduces the rate of interest expected, and so does the consideration in which land-owners are usually held ; while taxes, or the prospect of such, and of possible falls in value through other causes, also the cost of transfer, as well as the greater difficulties of sale when compared with bonds or mortgages, raise the interest demanded by investors, and consequently press on the price of the land. Though the loans of Government and public bodies are increasing very rapidly the world over, their increase does not begin to keep pace with that of the sums seeking investment in tribute capital. The rate of increase of public debts at present is about 120 million pounds a-year, which means that half of the yearly interest on the 6,000 million pounds of debts is paid by the means of new debts—whatever the pretext on which the new debts are incurred. Large as this sum appears, it is small when compared with the increase of the world's tribute capital, an increase which I estimate now at 600 to 700 million pounds sterling a-year. This sum represents the savings which are not invested in products of labour, but in new tribute claims. The new loans represent only one-fifth of these new claims. Four-fifths have to look for investment in land values, either in the shape of land purchase or mortgage loans. If the land of the world had a fixed unchangeable value, all would have been bought by the rich long ago, or would be mortgaged to them to the hilt. But land values rise with the demand for them. Not a square foot can be added to the earth's surface, and so the price of the land

¹ As New Zealand taxes mortgages with the fancy that she thereby taxes the mortgagee, it may be useful to repeat again at this juncture that the taxing of bonds or mortgages affects only those issued before the tax becomes law, for ever after the tax is taken into consideration in the price or the interest rate. A tax on a loan entered into after the imposition of a tax is always borne by the borrower ; for, as the rate of interest is determined by the money market and not by law, the law cannot change it. If 5% is the market rate for mortgages, a tax of 10% on mortgages simply raises the rate of interest to 5½% ; so that, after paying the tax, the mortgagee still gets his 5%. If he does not he will invest his money otherwise. A State which taxes its bonds will have to pay a correspondingly higher percentage for the next loan.

is forced up through an increasing demand in presence of a fixed supply. If the rent of this land rose as rapidly as its value, the interest rate could remain stationary; but, though rent finally swallows most of the increased income due to our progress in the arts of production and distribution, its expansive power cannot begin to keep pace with that of interest compounding, whose power we realised in the last chapter. The inevitable consequence is that land values are forced up higher than the capitalised value of the rent increase would justify, which means that the rate at which the rent is capitalised goes down. If R (rent) doubles, becomes $2R$, and thus at the rate of 5% (20 years' purchase) brings up L (land values) from 20 to 40 L ; while T (tribute claims), which look for investment in L , have increased from 20 L to 80 L , the inevitable result must be a descent of the interest rate from 5% to $2\frac{1}{2}\%$, because at $2\frac{1}{2}\%$ (40 years' purchase) $2R = 80L$.¹

Here we have the simple reason why

The Interest Rate has been gradually going down

within the last two generations, with only temporary interruptions due to passing causes, which for a time supply a more extended field of investment to the savers of tribute dues. We have witnessed such a period during the last two years. There has been a particular demand for money in different ways, principally for exceptionally large Government loans required for the Boer War, or for some important public works, of which the Siberian railway was the most prominent, while the extraordinary development of industry, especially in electric plant, has seduced

¹ The process of *Watering Stock* helps to disguise the rise of land values. A. Pohlman, in the *Deutsche Volksstimme* of January 5, 1901, gives the prices now paid for the shares of some old coal companies in the Pas de Calais, France. Bethune stands at 3,980; Bruay, 2,850; Courrieres, 2,800; Lens, 675; Meurchin, 13,900; and Nœux, 29,500. The nominal capital of Meurchin is 500 francs, that of all others 1,000 francs. Only Bethune is fully paid in, while the others have paid in from 300 to 600 francs. Nœux seems to have the highest value, but is almost the cheapest of all, because it is the only company which has not watered its stock. Meurchin has watered it five times, and is worth 69,500, but is not nearly so valuable as Courrieres, though the latter only stands at 2,800; because Courrieres has

more of the tribute dues to invest in tool capital than usual. The comparative security which the large American combinations gave to industrial investments attracted also immense sums of tribute savings, which go wherever monopoly of any sort can be secured. The sums represented by this last item are so immense (about 10 billion dollars in July, 1901) that they, by themselves, could account for the temporary lull in the downward pressure on the interest rate.¹

Land nationalisation, by taking land values out of the market, has the effect of destroying the elasticity of this branch of investment.

Slave Values and Land Values

Just as slave values disappeared on the day of Lincoln's proclamation, so land values cease to exist when land nationalisation is accomplished. It must not be forgotten that I use the word value only in its economic sense of market price. The real value of the negro, as well as of the land, not only remains after their liberation from private ownership, but rises; for free men are worth more to the community than slaves, and free land will be made to produce more wealth than that which is monopolised by individuals. For the land values which—in the capitalistic market—elastically extended with the demand for them, bonds are substituted, deprived even of the minimum power of extension they now possess in consequence of their temporarily excluded convertibility, which, while I am writing this on August 7, 1901, makes 4%. New Zealand bonds sell at 114.15. Bonds convertible at any time cannot attain any premium. The presence of a

watered thirty-fold, and in reality the 300 francs actually paid in are worth 84,000 francs. The lowest in the list, Lens, instead of being 325 francs below par, is worth 67,500 for the 300 francs paid in, as it has been watered a hundred-fold. Bruay has been watered twenty-fold, and is worth 57,000 francs; while Bethune has merely been liquefied to six times its bulk, and is worth only 23,880.

It is evident that it is not the machinery and buildings of these companies which have thus increased in value, but the coal seam, the land.

In the same way English and American railroad companies are in the habit of watering their stock to disguise the increased value of their right of way, their land, and of the high rent they draw from it.

¹ A pressure rebeginning in 1902, as soon as the above-mentioned causes ceased to act.

premium shows that the interest rate has fallen below that paid by the State, so that where a higher rate is secured for a certain period a premium is paid corresponding to the capitalised amount of interest obtainable above the market rate, after a deduction for the final loss of the premium when the period of inconvertibility has expired. The new capital looking for investment in tribute claims, not being able to bid up either land values or bonds, must depress the rate of interest¹ at which the bonds are issued; just as a river kept within its bed by dams flows more rapidly towards the sea level than one left free to inundate its borders. This process goes on the more speedily the faster the profits made by the State between her growing rental income on one side and the diminished interest debt on the other permit the redemption of the bonds. This redemption is accelerated by the treble force of the falling interest rate, the rising rent, and compound interest—this last factor working for the people after having been their worst enemy. The faster the bonds are redeemed the less interest has to be paid, and the more rapidly can the reimbursement of the bonds go on. When New Zealanders take into consideration the effect which the falling of the interest

Historic Precedents

¹ The falling of the interest rate which I expect from land nationalisation, independent of currency reform, is not without historic precedents. I quote from Adam Smith's "*Wealth of Nations*," Book I., Chapter IX.: "The province of Holland, on the other hand, in proportion to the extent of its territory and the number of its people, is a richer country than England. The Government there borrow at 2%, and private people of good credit at 3. The wages of labour are said to be higher in Holland than in England, and the Dutch, it is well known, trade on lower profits than any people in Europe."

See also in Kahn's "*Geschichte des Zinsfusses in Deutschland*," where we learn that the interest rate of mortgages in Hamburg was 2½% previous to 1842.

At the time of which Smith speaks comparatively few national loans existed—only 500 million pounds, according to Fenn, against our 6,000 millions—and the land was mostly tied up, so that little was open for the investment market. In Hamburg, at the period mentioned, the savings of its rich citizens awaiting good investments near home were very large, while the demand for money on mortgages was comparatively small.

The low interest at which money could be obtained by business men in Holland had an effect on wages which supplies another refutation of Henry George's strange theory that interest and wages rise and fall together. (See p. 340.)

rate must have on production and distribution, and the influence this will exercise on immigration, with its increased demand for land and a consequent rise of rents, they may hope—without being over-sanguine—that the fifteen or twenty years will not be exceeded which I gave in Chapter II. as the term of a full repayment of all the bonds issued for the purchase of the nation's land. In that place I have dealt especially with the direct results of land nationalisation, leaving for the present chapter the consideration of indirect results, *i.e.*, those exercised on the interest rate, and thus on capitalism, which are of very far-reaching influence.

After the land is once paid in the manner shown, and the bonds issued for the purpose are redeemed, the surplus income of the State from her rental incomes could be used for the gradual extinction of our present public debt, besides yielding a fund for old age and invalidism pensions, as proposed in Chapter II. As I said there, ten years more might be required for the redemption of the land debt if the pensions were to run from the beginning of land purchase.

Thus the two principal roots of tribute capital will disappear, and will only leave the tool capital to those who wish to invest their savings within the country. Of course, as long as

Outside Investments in Tribute Capital

can be made, interest cannot entirely disappear from our midst, and so the tool capital cannot yet give up its capital quality, cannot return into the category of simple wealth. But we must not over-estimate this influence, as we might be tempted to do at the first glance. The tremendous increase of production and the growing wealth of the people must so increase savings that the amounts which each saver keeps within the country at his ready disposal will alone suffice to supply all the capital required

Immense Free Capital

When, even now, the free deposits of our New Zealand banks figure up to seven million pounds, though most of our people cannot put by enough to keep a bank deposit at all, what estimate shall we forecast for a time when everybody will be able to put aside large amounts for future use? Seven million pounds would soon grow into a hundred millions, and all this

money would in the last resort be at the free disposal of the State, the effects of currency reform helping. The bonds issued for the land could thus be refunded faster and faster, and in this way a previous currency reform would accelerate the liberation of the land. After all public debts are repaid, the State could lend out the accumulating funds at a nominal interest, and thus further stimulate production and saving, besides supplying the means for public works, for the furtherance of immigration. No more fear then of too many hardy workers coming in who, by their competition, might force down the wages of our workers! Land and capital are ready for them, and every additional worker will be a gold mine for the country. He brings not only two arms to produce wealth, but also a mouth to consume it, besides his other organs and their wants. Once these wants are satisfied, he, too, will save for the future, and thus will become a supplier of capital for further immigrants. There is no reason why our New Zealand should not become *the Britain of the Pacific*, with more inhabitants than the Motherland. Indeed, there is every reason to fear that—if the latter continues in her present conservatism, not to call things by a ruder name—Macaulay's famous vision may some day become a reality.

Anyhow, our prosperity would supply so powerful an object-lesson to other countries that they would soon copy us, and this would finally doom interest entirely, and thus sweep away the last obstacle to a progress of so prodigious a nature that even the most sanguine anticipations cannot approximate to it.

I do not speak of the kind of progress we are so used to, that

One-sided Growth of Wealth

of which our modern multi-millionaires are the outcome. I do not speak of a progress in the nature of that reported by R. A. Dague, in the *Forward Movement Herald*, of Los Angeles. Perhaps the figures he gives are exaggerated, but every impartial observer knows that whether the rates of differentiation between the fortunes of the people given by him are correct or not, the existence of the tendency cannot be denied. Mr. Dague says:

“From the statistics of the Government we find that:

“In 1850 the wealth of the American nation was 8,000,000,000 dollars. The producers' share was 62½ per cent.; non-producers' share 37½ per cent.

“ In 1860 the wealth increased to 16,000,000,000 dollars. The producers' share fell to $43\frac{3}{4}$ per cent.; non-producers' increased to $56\frac{1}{4}$ per cent.

“ In 1870 the wealth was 30,000,000,000 dollars. Producers' share was $32\frac{2}{3}$ per cent.; non-producers' share $67\frac{1}{3}$ per cent.

“ In 1880 the wealth increased to 48,000,000,000 dollars. The producers' share went down to 24 per cent., while the non-producers' share increased to 76 per cent.

“ In 1890 the wealth was further increased to 61,000,000,000 dollars. The producers' share fell to 17 per cent., the non-producers' share increased to 83.

“ And now, in 1900, it is estimated that the wealth of the country is 100,000,000,000 dollars, while the producers' share has fallen to 10 per cent., and the non-producers' has gone up to 90 per cent.

“ As the amount of wealth production increased, the producers' share in that wealth decreased.”

The progress after land nationalisation and currency reform will not be one of this nature, of immense peaks towering above hopeless chasms; it will be a gradual and comparatively uniform upheaval of the whole level. In Chapter IV. I have tried to show how these glaring inequalities in our wealth distribution prevent production from keeping on a level with productive power. I have proved how this effect is produced by our present monetary system, which forces our whole trade through the narrow golden portal whose door-keepers are the commanders of the world's scanty gold stock. I have also tried to give an idea how we shall be freed from the curse of over-production through under-consumption, by a currency no more dependent on one special commodity liable to be cornered by the rich, but based on all commodities and services, on productive power, a currency which expands whenever and wherever a fall of prices indicates that productive power cannot become effective, because it is not followed by consumption. I have to ask the reader to kindly re-peruse those pages in Chapter IV., because

**The Great Problem cannot be fully faced
unless we enter by the Currency Gate**

I know this by personal experience, of which I am supplying the proof by quoting from “Rent, Interest, and Wages,” written

after many years of study, for which many more years of practical work in different branches of business had prepared me.

"Let us suppose a group of one hundred workmen and one employer. The one hundred workers are producing all necessities and luxuries, each one having his speciality; the employer gets one-tenth of all they produce. Each worker will thus have only nine-tenths of what he produces; the employer will get the production of ten workers. The question whether the work of supervision and organisation, and perhaps of invention, accomplished by him is worth as much as he gets for it, and whether through the employer's work every worker, in spite of his giving up one-tenth, gets more wealth than he would without the employer's interference, is one of no importance in regard to the question before us. All we want to know at present is whether the employer's confiscation of one-tenth of all the wealth produced will in any way interfere with free exchange, with the full right of exchange. It evidently will not, if he consumes his share of wealth, or even if he puts it aside for future consumption.

"The workers, instead of exchanging the product of a full day's work, only exchanged that of nine-tenths; the employer takes the balance, and everybody has full work all the time.

"Let us suppose, now, that the productiveness of labour by means of inventions increases ten-fold, as actually has been the case, if we compare to-day's results with those of the Middle Ages. Let us further suppose that wages—that is, that part of the product left to the worker—have quadrupled in that time, which, as we have seen in the last chapter, is far from being certain. In what ratio will the share of the employer have risen, if he gets the balance? P is the product, of which formerly W (the workers) enjoyed nine-tenths, and E (the employer) one-tenth. W had together $90 P$; E $10 P$. Now W enjoy $4 \times 90 P = 360 P$, and the total of production being $1,000 P$, E will get the balance of $640 P$.

"Let us suppose that his needs have only increased ten-fold, whereas his income has increased sixty-four-fold; this would enable him to invest a great part of his revenues in luxuries or in new tools, by which he could still further increase the productivity of work, and consequently his income.

"We might consider it unjust that one man should get so much, and others so little. We might reply to statisticians like Giffen, who exultingly point to the quadrupling of the workers' incomes as a proof of their increased prosperity, that their relative income, instead of having quadrupled, has gone down to two-fifths if we take into account the increase of productive power. But all this would have nothing to do with the right of free exchange. Every worker would be able freely to exchange his products with every other worker, and there would be no want of work for any. Whether E takes his lion's share in articles of consumption, or whether he prefers taking it in new tools and machines by which he further increases the productiveness of labour, is immaterial. The latter forms of investment might be of greater advantage to the workers, because it is not impossible that a small part of the increase of wealth due to new machines would fall to their share. But even supposing that it only increases the income of E, it could not do them any harm, so long as E continues to invest his surplus in the old way. But let us suppose, now, that E is the owner of the land, and by that means of all forces of Nature, all its accumulated treasures, without which work is impossible—and we have to make such a supposition, as otherwise there would be no earthly reason why the workers should not have left their employer as soon as his share exceeded the value of his services. They would very soon have made for themselves as good machines as they had made for him. Let us further suppose that E made up his mind that he had machines enough, and did not want any increase of luxuries for the time being. A new feature of the problem would in this case present itself which had not been observed before. There would no longer be work enough for all the workers. They would like to continue as before, working full time and exchanging with each other the products of their work, giving the lion's share to E; but E will not let them have the use of natural opportunities any more and any longer than he needs their services which they furnish in payment. One-half of the tribute they are in the habit of paying is all he needs, and the natural consequence is that half the work will be all he requires, and all he allows to be done on his land. He now uses the rest of the land as a deer park. There being no other way of going to work than by using E's land, our workers will

have to work half time, though they would be happy if they were allowed to make use of their leisure to produce for themselves the goods they are so much in need of, because naturally E only pays them half wages for half work. Very soon fifty of the workers will come to E and propose to him to work cheaper than the others, or to give him a larger part of their products, if he will allow them to work full time. E accepts, and from now there is no more work for fifty of the workers, for the remaining fifty do all the work, and leave a larger share to E than the hundred left him before. Let us suppose that E increases his consumption fast enough to use up the new savings he makes in this way, as otherwise there would not be full work even for the fifty cheaper workers. Things do not rest here. The fifty unemployed ones, pushed by hunger, finally underbid their former co-workers, and get the work themselves, or rather forty of them get it; for they work so hard, long, and cheap now that E gets as many goods out of them as before out of the fifty; and since he does not need any more goods for the present, there is only work left for forty. These forty, reduced to starvation wages by their underbidding their former friends, call in the help of their wives and children. By these means they begin to get along a little better, until the increased production becomes too much for E, who consequently dismisses ten of the party. The unoccupied reserve army of workers amounts now to the number of seventy and their families. Want drives them to underbid the thirty, who with their families are working overtime to make a decent living. Finally a man working with his whole family gets no more for fifteen hours' work than he formerly got alone in ten hours. 'There is no help for it,' say the lawgivers they appeal to, 'work is slack. Emigrate (to other countries, where the same state of things takes place) or go to the poor-house! We cannot fight against the laws of supply and demand.' Some of the lawgivers belonging to another party propose protection, or as that name has become hateful in their country by past bad experiences, they call it 'fair trade.' Some of the workers cannot see what good it can do them if goods are not imported which they cannot produce as cheaply as the workers of other nations; if these, to be even with them, stop taking those goods which they (the native producers) used to export, having attained the knack of

making them better and cheaper. Said producers, not knowing how to strike at the bottom of the evil, propose certain other measures. They ask for a maximum working day of eight hours, for a prohibition of the employment of married women and children, and others even want the State to fix a minimum of wages. When the law-givers of both parties hear this, a terrible noise is raised against these socialist and anarchist agitators who want to sap the foundations of our prosperity, the liberty of each man to work as long as he pleases, and to sell his work and that of his wife and children to whomsoever and as cheaply as he pleases. They ask the workers how they can afford to lose the wages of overtime and the earnings of their wives and children, when even as it is they hardly know how to make both ends meet.

"In this way things get worse every day. If a certain part of the unemployed did not open liquor shops; if others did not artificially add to the cost of goods by waste in the work of distribution, thus forcing E to spend a little more, and to occupy more workers; if others, by becoming criminals and paupers, did not make more work, especially by compelling E to employ some of them as policemen and soldiers, thus reducing the army of the unemployed; if the E's of the different countries did not from time to time quarrel amongst themselves, and lead the unemployed workers mutually to kill each other, thus reducing their numbers; if these and similar means of decreasing *overpopulation* were not adopted, there would have been a terrible catastrophe long ago.

"We have seen now that the direct cause of the evil is not that E gets a certain share from the workers, but that he does not take this share as fast as they are ready to deliver it, preventing them at the same time from working further until he feels ready to accept the part due to him. We have further seen that the power of thus impeding production is given to him by the ownership of natural opportunities."

The problem is so important that I may perhaps adduce another parable for its illustration.

Robinson Crusoe, on his island, had to work all day to satisfy his needs. When he got Friday to work for him, things began to improve. He got a little leisure once in a while, and could think of producing articles of luxury. More slaves were pro-

cured. The result was complete exemption from work and a greater amount of luxury for Robinson, while the slaves had to work all day long with their primitive tools to provide this luxury and the necessary means of subsistence for themselves. A ship arrived bringing them all the tools and machines which technical science has given to civilised humanity. Very soon the slaves learnt how to use them. Their productive power increased immensely. Where formerly the work of six slaves, and that of their own families, was necessary to provide the entire colony with clothing, a single producer was sufficient now, and, in spite of this, everybody was clothed better than before; for the cotton gin, the spinning jenny, the improved weaving-machine, the sewing-machine, and other inventions of the same kind, facilitated so much the work for the one worker, that he was enabled to achieve more than thirty could before. It was about the same with agriculture, with bread-making, house-building, and, in fact, with all industries, which before had been carried on by hand. Everywhere hands could be spared, and yet there was a larger production than before, so that all could live in abundance. The unemployed workers had to produce articles of luxury, which before could not be obtained. Good beer, wine, furniture, carpets, table services, and jewellery, works of art of all kinds were made—in fact, all these settlers could wish for. In time, machines and tools, as well as methods of production, improved more and more, so that workers in all branches could be spared. What did it matter? A great many more articles of luxury were invented and provided. One of the slaves, who was very talented, entertained the company with musical and theatrical performances; another wrote books; others built pleasure carriages and yachts, etc. The general well-being increased continually with the increasing facility of satisfying every wish.

All this was very good until one day Robinson got up in bad humour, and gave the order to stop the general good living of the slaves, which did not please him. "He alone had a right to enjoy all those luxuries which everybody had been partaking of; and the slaves ought to be satisfied if they got enough to eat and to drink, and had protection against wet and cold. All that went beyond this point only made them lazy and vicious." From that day the slaves were forced to live accordingly.

A week after this, when Robinson took a walk, he saw a great number of the slaves standing about doing nothing. He angrily called his head man, and gave him strict orders that only those who worked were to eat, and have clothes and lodgings.

He was perfectly astonished when, some time after this, the head man came to tell him that a number of the men were dying of want.

"Are you mad?" Robinson asked him; "has not the island got more stock of all the good things man needs than we could wish for, and can we not produce as much more as we like? Are there not victuals enough? Are we short of clothing or of houses?"

"On the contrary," the head man humbly replied, "we are forced to build new store-houses, because the old ones are filled to the top with food and clothing, and a great many of the dwelling-houses are empty."

"Well?" asked Robinson, whose astonishment continually went on increasing.

"Yes, sir, that is all right; but you ordered that only those who work are to be fed, to be clothed and housed."

"Certainly; and that was only right. Why don't the lazy fellows work?"

"Because there is no work for them."

"No work?" said Robinson, more and more astounded, and feeling his head to see whether he was not dreaming. "No work? Are you crazy, my man?"

"No, sir," replied the the head man, who felt offended. "I have got all my senses about me, and should be very grateful to my master if he would show me what work I am to give the men. In the brewery, to begin with, three men were employed who had plenty of work in providing the beer for our people. Since your lordship has forbidden this luxury, so that only the beer for your table has to be brewed, I had to take away two of the brewers, and the other is only busy one-third of his time, so that he is also doing the work of the cooper, who consequently is out of work now. It is the same with the people who made the carpets and other articles of luxury. Your lordship is provided for, and the others are not to have any, so I have to take the workmen from their work."

Robinson learnt a great lesson that day, which our economists and statesmen, as it seems, have yet to be taught ; a lesson which, in fact, we ought to ponder over, if we don't want it driven home to our minds some day in a fashion we shall hardly relish : the lesson that *we cannot produce if we do not consume.*

How different a case looks according to the side from which we observe it ! The above passages were written by the disciple of Henry George, by one who saw most things through the master's spectacles, and from the land nationaliser's point of view. I do not mean that in the two supposititious cases things would not pass exactly as described, but the supposition itself does not coincide with the conditions of every-day life. Whatever might come some day if we allowed a continuation of our shameful system of land ownership, its effects have not been realised to such an extent in our time that we should be justified in explaining on this ground alone the strange phenomenon of poverty through progress. As yet, land can be had at reasonable conditions in many parts of the world, provided the means of transportation are at the disposal of the workers. Private land ownership is bad enough, without putting everything on its back. What has, more than any other cause, prevented humanity at large from fully benefiting by our progress in the arts ? It has been the fact that this very progress has given us a productive power so wonderful that it has far outstripped the capacities of an antiquated means of exchange and payment, wholly unadapted to the work expected from it, through its want of expansive power. We must realise this before we gain headway in the solution of the great problem how to make production keep up with productive power. Only after having accomplished an adequate currency reform shall we find that if we do not make haste in preventing it, a new strong gate will take the place of the one we have demolished. Then, and only then, a time might come which would see the realisation of my two allegories.

I do not wish it to be understood that I want to minimise in the least the pressing necessity of re-conquering the land for the people, its rightful owners. The very fact that I began this book with land reform before I approached the

currency question shows how little I have ever relaxed my efforts in this direction, how fundamental I still consider the great principle that the basis of any permanent social reform must be the destruction of private land monopoly.

In fact, in the great social structure in which humanity is living and working, the different building materials are so intermixed that no reconstruction appears feasible unless we pay due attention to all at the same time. We cannot replace the rotten rafters without putting in some new bricks, and we cannot put on a stronger roof without looking after the foundation and the walls. The relations of land ownership, of capital and money, of rent, profit, and interest, are so complicated that none can be understood, and certainly none can be touched, independently of the others. I have already shown how the rent of the land and the interest of the capital paid for or lent on the land cannot be separated. This being so, it is easy to realise that were there no private right of owning the land there would be none of the soil on which the millionaire fungus could batten. There is too little gold in the world to supply the hoards of more than a small fraction of our rich, were they compelled to invest their money in the primitive fashion still obtaining in some parts of the Orient. I have shown how dependent on labour for their maintenance other forms of wealth storage would be. Take away the land from the feet of the colossus and it will crumble into dust. Mammon, like Anteus, must perish if deprived of intimate touch with mother earth.

Given free land, and a rational money increasing with productive power, and every hindrance to the full development of wealth production up to the limits of productive power will vanish forthwith.

Will it, indeed ; is not there one remaining pillar of Plutus's temple :

Profit ?

Profit, that spectre of socialists hardly yet mentioned here ; with what right is it treated so contemptuously ? Let us approach nearer to the terrible bugbear of so many students of economic and social science, and, in the fashion of its kind, it will at once lose its terrors. Let us examine it ; let us exclude rent and interest from its sum total ; let us take

away the stilts of land ownership and our present currency system, on which it rises far above its natural height, and poor Profit will assume such modest proportions that, unless we look very closely indeed, we shall not be able to distinguish it from our friend Wages. Only by going quite near we shall find that—wearing his cloak, Speculation—he looks a little fatter than Wages, but in reality he is not clothed any warmer; for, whenever he puts on his cloak, he leaves off his coat. Quitting the metaphor, I mean that speculative profits are balanced by speculative losses wherever monopoly is out of the way.

Risk

In saying "balanced," I am very optimistic; for, in reality, the losses seem by far to preponderate. My business experience and what little statistics are obtainable in this field have given me the conviction that, after deducting rent and the wages of supervision and organisation at the rate paid by co-operative societies and limited companies, and last, not least, after taking account of the losses made by *entrepreneurs* of all kinds, what remains will not pay the rate of interest obtainable on mortgages or bonds.

At first this assertion may be received with a certain unbelief. This is natural, for it is human nature that the dazzling exception makes a deeper impression than the less visible rule. While the sun shines, the stars are invisible. The Goulds, Vanderbilts, Rockefellers, Carnegies, or Morgans are such luminosities in the wealth firmament that the millions of failures are eclipsed by them. And yet, when that part of their brilliancy is subtracted which is due to monopoly of some sort—of natural resources, of means of transportation, or of protective laws—what is left of these gorgeous suns? How many crushed existences had to supply the mortar with which these pyramids of wealth have been built? How many losses of thousands we never heard of had to compensate the profits so prominently paraded before our eyes? One single Panama canal, in which £50,000,000 were sunk, balances £1,000 profit of 50,000 enterprises. £404,000,000 of the capital invested in companies in Great Britain alone from 1892 to 1899 have been liquidated, and the Inspector-General in Companies Liquidation says: "It appears that the total number of abortive or liquidating companies

during 1899 was in the proportion of new companies registered 60%, as against 56% during the previous year." That such losses generally do not affect the very rich as much as the poor is shown by the further remark: "About 37% of the capital belongs to the more or less solvent class, while the remaining three-fourths in number, or 63% of capital, represent the insolvent class." Among the 37% we shall no doubt find very little money of the multi-millionaires, for this kind of men have learnt by experience that he who counts on certainties, on the 3% or 4% obtainable on good securities, is better off in the end than the speculator who hopes for 100% or more, and generally loses all. It may once in a while pay to buy a single lottery ticket, but wherever all tickets, or a very large quantity of them, are habitually bought, loss is certain.

If we go through the lists of dividend-paying companies we shall find that their average rate of interest made on the capital does not exceed what could have been realised on good rent and interest investments. Werner Siemens, the departed chief of the Berlin house, Siemens & Co.—one of the most successful manufacturing establishments in the world—once said that when they built their works, they discussed the policy of buying the whole block, but finally desisted, and limited themselves to the purchase of the actual site. The result was that if the firm had carried out the first intention, it would have made more money through the increase in value of the land than it ever made in business.

And this was one firm in a thousand, exceptionally successful. For one house of this kind we find a thousand who never lived over the first years of their existence. We have only to consult the lists of Dunn and Bradstreet in the United States to obtain an idea how numerous the failures and how immense the commercial losses are. I need not continue on this subject; only too familiar to all those who, like me, have spent a good part of their lifetime in practical business, and only puzzling to outsiders, and especially to two classes whose continual harping on profit has given it the undue prominence it occupies in sociological discussion. To the first belongs the economist of the study, who laboriously tries to make bricks without straw—or, to use more modern language, without clay, sand, and all other suitable material. His want of practical experience pre-

vents him from grasping the problem ; while the other class, the wage workers, who compose the body of the socialist army, are too near, and cannot see the forest for all the trees barring the outlook. Not all is profit that they see ; for the credit of the house demands a careful hiding of the other side, and they never think of the many failures.

Let us change rent—now the most copious source of the capitalistic torrent, devastating the fields of labour—into an income of the people at large ; let us turn it into the abundant supply of a vast irrigation system, bringing forth untold wealth wherever its waters flow. Let us change money into what it purports to be—a powerful tool of distribution—from what it is : the most terrible weapon forged against the free exchange of labour's products. Let us in this way destroy interest, the worst enemy of humanity ; and when we have done all this, let us turn our lance against the terrible giant Profit, following the angry knights who gallop against it on their outworn Rosinantes ; but let us not be too much taken aback when we discover that the giant is, after all, a poor windmill, kept in motion by thousands of windbags made out of paper soiled with printer's ink, blowing against the fabric with their full power.

In the next chapter we shall see how successfully the workers are learning to use the tool Co-operation so as to become producers and distributors on their own account. The great reforms will clear from their way all those obstacles now impeding their progress ; though, as I shall show, even now they could advance much faster if they dared to try new methods. Co-operative production and distribution will become the rule, instead of the exception ; and where the workers continue to work on the wage system, their wages will give them the full equivalent of their work. Their employers will differ from the managers of the Co-operative Society only in their undertaking the management by contract work instead of on salary. They take the risk and chances, and give the others a certainty ; while, under Co-operation, the risks and chances are taken by the members, and the manager works on a certainty—unless he, too, is paid by a profit share. It cannot be asserted which of the two systems will procure higher wages to labour ; for the managers by contract, the employers, may be so much more capable than those working on salaries for the co-operated

workers, that, in spite of their earning large incomes for themselves, they may be able to pay higher wages to their employees than the co-operating worker earns as a shareholder of his society.

The Wage System

I know that such expectations must appear very strange to Socialists declaiming against the wage system as such, and not noticing what they really attack is the system of low wages. I cannot blame them so much as the practical business men who do their best to prove to them the necessary identity of wages and low wages. Of all disgusting things I have to read in my special field of study, nothing beats those exhortations addressed to the union man who tries to force up wages.

The Employers' Exhortations

Two points are usually made: (1) "If you want too much you will not get anything at all, because we shall not be able to compete in the world's markets. (2) High wages mean dear products, and the purchasing power of the wages sinks in proportion to their rise." This is the nonsense usually dunned into our ears by employers of labour, by economists, by able editors of all colours, who mostly agree on this point at least.

If I were a swearing man, I should reply to the first objection with the four words: "D— the world's markets!" I did better by proving, in Chapter IV., the insignificance of these markets when compared with the one at our very doors, especially after the conquest of a purchasing power in harmony with the proceeds of production has largely widened this domestic market.

The other objection requires a few more words.

Wages and Purchasing Power

If wages were the only component of selling price, the argument that the worker cannot profit by higher wages, as they must result in a correspondingly higher price of everything he buys, might be plausible. But wages form less than one-sixth

of the selling price of goods. Since I first made this calculation eighteen years ago I have seen it confirmed from different quarters; and the immense increase in the arts of production and distribution since that time has still further reduced the proportionate share of labour, as the increase of wages has not kept step with the growing productivity of labour. Even at that time when I made my calculation it was rather above the mark, for, in 1883, the total production of the United States was calculated at 6,000 million dollars, the total of wages only at 979 million dollars—not quite one-sixth; but the 6,000 million dollars are figured on wholesale prices, and, to judge the relation between the proceeds of the workers' production and their purchasing power, we have to take retail prices.

The following passage from Bersford's "Pocket Book of Statistics" gives a proportion of only $13\frac{1}{2}\%$ for the United States, when retail prices are taken into account:

"Mulhall estimates the increase of the retail price (of commodities) over factory price as not less than 30%, but by comparing the wholesale price with the retail price of 25 commodities, such as clothing, shoes, flour, sugar, coffee, tea, meat, tools, etc., I found that the average increase was 67% over wholesale prices (and the wholesalers' price was, of course, above the factory price). We would, therefore, I think, be quite justified in adding 50% to the total; but to be very conservative, if we add 30%, we find the total value of manufactured products to be \$14,011,793,736; dividing this by the number of workers (operatives employed in manufacturing industries, which is 4,251,613) we arrive at \$3,295 as the value of the average annual product per worker; and the wages paid being \$445, they are equal to about $13\frac{1}{2}\%$ of the gross product. In other words, each worker produced about \$10.55 per work day, and received about \$1.42 per day as wages."

Bersford is far too modest in his estimation of middlemen's gross profits.

The New Zealand Year Book of 1899 gives the wages spent in manufacturies and works (including meat freezing and boiling down, fell-mongering and wool-scouring works) for 1895 at £1,907,592, and the total approximate of the produce at

£9,549,360 ; so that wages form 20% of the turnover at manufacturer's prices. If we keep below the mark and add to the manufacturer's price only 50% for all the middlemen, which is only $33\frac{1}{3}\%$ from retail price, we obtain in round numbers £14,300,000. Of this, the amount paid for wages would form 13·3%, which comes very near to the American estimate of $13\frac{1}{2}\%$. The lion's share of what remains is taken by distribution, which is carried on in such a wasteful way that a very considerable portion of the expense could be saved under a rational system—of which more in the chapter on "Socialism." Not less than one-third of the retail price is thus wasted. The saving which could be effected in this department alone would therefore permit a trebling of wages without increasing the price of goods at retail one single penny. Of the remaining two-thirds, manual labour gets less than one quarter ; but as we have to pay also for intellectual work of all kinds—including Government and professional services and cost of distribution—let us add another quarter for that. The saving of the other half (of the two-thirds) now paid out for profit (?), rent, interest, and waste would then permit the trebling of the present pay for intellectual work. This leaves out of calculation the wonderful increase of productive power due to the freeing of production—which enables the latter to come up to productive power—and to the higher division of labour rendered feasible by the increased turnover which follows the greater purchasing power of the consuming masses. If we only count on this item for a mere doubling of the proceeds, we could increase the wages of manual labour eight-fold, and those of intellectual work six-fold, without in the least raising retail prices.

In New Zealand, through our so-called labour legislation and other favourable conditions, the share of labour in the manufacturer's proceeds is a little higher ; but the principal item—the waste in the field of distribution—is at least as high as, if not higher, than anywhere else. Whoever took the pains to calculate how much the farmer who brings produce to the market obtains for it, and what prices are paid by the consumer, will be astounded. What with freights, which could be greatly reduced by a better system, what with the loss through the practices of auctioneers, of which I have learnt more than I should like to say here, and the high additions to the price

made by the retailer—especially in the fruit line, where the Chinese rings form the best organised fleecing machines—the difference between first cost and retail price is almost unbelievable.

I had also occasion to obtain an insight into the cost price of clothing, and found that the retail price is about double the cost price of the manufacturer; and the price of the latter includes many items which could be saved under a better system, with the advantages of the better division of labour due to a larger turnover through higher wages, and a consequent increased purchasing power of the masses.

I have mentioned

Our Labour Laws

a sore subject with our manufacturers, and one which greatly agitates them just now (August, 1901). I have been too long one of their guild not to appreciate their grievances, and to understand why they consider the present state of things almost unbearable. I can fully sympathise with them if they speak of closing their shops rather than submit to new exactions of the unions. I believe in the right of free contract without any limit, be it by arbitration, labour time, accident and sickness insurance, or contribution towards old age pensions;¹ just as much as I believe in plenty of air and sunshine, in cold water, free exercise, and not too much clothing—under one condition, however, a *conditio sine quâ non*: a healthy state of things.

Poison against Poison

Just as I fully admit that cases may arise where the admission of cold air may do more harm than good, where the diseased eye has to be guarded from the effect of light, where warm water is preferable to cold, and rest may take the place of exercise, while the warmest clothing becomes necessary—so I know that, under diseased social conditions, many measures which other-

¹ In Germany employers have to pay a certain quota towards the old age pensions; in New Zealand the general tax-payer provides the funds.

wise would be absolutely condemnable may prove useful. What is a poison in the ordinary state of health may perhaps be used to good effect by the experienced physician in the case of disease. Therefore, under the existing system, laws which are based on a false principle may be highly beneficial because the system is bad. By multiplying a negative with a negative we obtain a positive. Thus laws which force up wages and, by granting certain indemnities to the worker, raise his purchasing power, or which, by limiting time, increase the number of billets, and thus give a consuming capacity to people who now have to go without it, though bad in principle, are beneficial, not only to the workers, but also to their employers; provided, of course, that eventually an efficient protection shuts out pernicious foreign competition, a subject I need not rediscuss after the exhaustive manner in which I dealt with it in Chapters IV. and V. Under natural conditions the law had better not meddle with these matters. The right of free contract between labour and capital need not be interfered with in a state of freedom. It is different where organised or unorganised labour is at the mercy of organised or unorganised monopoly. This is not the only case where

What is bad in Principle is good in Practice.

In a world where everything is topsy-turvy, only those who stand on their heads are in their normal position. Thus it comes about that people can in the same breath speak of *over-production* and *over-population* without being put into a lunatic asylum; because we really live in a world in which millions cannot get rid of the wealth they produce—or would like to produce—while these very men who are thus most anxious to create more wealth cannot obtain the mere necessities of life because of our over-production. As long as we do not adjust the foundations of the social building the more we stock the place with wealth of all sorts, the sooner must it crash down, and to throw the good things out of the window as quickly as possible must be the best policy. As long as we permit some men to monopolise the ownership of mother earth, the substance on and from which the land animal, called man, can alone live; as long as some men can control the medium of exchange,

and through this control can demand tribute from their fellow-men—payable, not in the products of their labour which these would willingly give, and could supply in sufficient quantity to speedily pay all their debts, but in that same monopolised means of exchange which forms the main source of the tribute claims—so long is the economic world in a diseased state ; and whatever is good under normal conditions must be bad under present circumstances. In this way I have found a very simple test by which I judge whether, under existing conditions, any measure will produce good or bad results. I simply investigate whether its principle is correct or not. If it is correct, then the measure won't do ; but if the measure is based on a vicious principle, it is ten to one that the best thing is to vote for it. It will be easy enough to prove this strange paradox.

War and Business

Is it good that millions of men are kept unproductively under arms from day to day, from year to year, that Europe's peace establishment alone now exceeds three million men ? Certainly not ! Such a state of things is entirely opposed, not only to economic laws, but also to those great principles preached from the Mount, which form the basis of that Christianity professed, though not practised, by a great part of our civilised world. The conclusion is, that this armed peace, this forcing of millions into a busy idleness, is an excellent thing from an economic point of view, as long as we do not make fundamental economic changes. We talk of over-production now ; but what should we say if these millions of our strongest and healthiest men, instead of merely consuming, set to work and produce more wealth—imploing a market ? On the other hand, when is business brisker than in war times ? Business was prosperous during and immediately after the American Secession War ; during and immediately after the Franco-German War ; and is not our presently expiring revival mostly due to the Boer War and its consequences ? This is natural, for war is the greatest consumer ; war creates that wonderful arcanum for which we all sigh and often fight : a market for our surplus production. Things have to come to such a pass that business men all over the world look at wars, if only they do not involve

their own country, as blessings, which a poor, over-stocked merchant ought to be very thankful for. I know they do not say so publicly, and their press organs are duly praising the blessings of peace with a grateful upturning of their eyes ; but I know what is said behind the scenes, for during forty years I have been an initiated member of Mercury's Limited Stock Company, called the commercial community. If this had not been so, if I belonged to that learned clique which the world over have monopolised economic and social science, I should speak differently. I should praise the beneficial effects of peace ; I should curse the destructive tendencies of war ; I should declaim against the waste of militarism ; I should expect universal prosperity from general disarmament ; I should do all this, and I should be as great a liar as they are under the existing state of things. Moral : peace societies, stop your nefarious work ! Nefarious, as long as you do not help us to lay those foundations of the peace temple, without which the higher you build the more surely will your baseless structure fall, and overwhelm us with disaster : the foundations I am trying to specify in this book.

Temperance

It is a truism that alcoholism is even a more terrible scourge than war. For one victim of the battle-field, more than a hundred are killed by the bottle. But supposing prohibition or any other method were successful in exorcising the fiend, what would be the result ? A terrible increase of over-production and unemployment, as long as every worker produces six particles of wealth, and is only permitted to consume one, while those who are entitled to the other five parts are already over-satiated with the wealth now falling to their share. Consequence : more unemployed and more drink. For one man saved from drink in such circumstances and now producing with all his power, two may lose their job and turn to drink in their despair. Proofs are not wanting that misery produces drunkenness far more frequently than drunkenness produces misery. " In Rent, Interest, and Wages " I gave an interesting example from Ireland, where a drunken population became sober through obtaining a continuous paying employment. I

here add an article from an American paper, the *Binghampton Independent*, in the same direction :

"A table has been prepared by Professor Warner, of Stanford University, based on fifteen separate investigations of actual cases of poverty, numbering in all over 100,000 cases in America, England, and Germany. These investigations were conducted by the charity organisation societies of Baltimore, Buffalo, and New York City, the associated charities of Boston and Cincinnati, by Charles Booth in East London, and for Germany we have the statements of Mr. Böhmert as to seventy-seven German cities. They include virtually all the facts that have been collected by trained investigators, unbiassed by any theory. From these figures it appears that about 20 per cent. of the worst cases of poverty are due to misconduct, and about 75 per cent. to misfortune. Drink causes only 11 per cent., while lack of work or poorly-paid work causes nearly 30 per cent.

"All evidence worth considering goes to prove that poverty and crime are both results of forced idleness or low-paid labour. As a rule, men who are steadily employed at some productive work, and who get in return for their labour what they consider to be a fair share of the product of their efforts are temperate and moral. If all men could feel sure of steady work at fair pay there would be practically no need for policemen or temperance societies. If the preachers would study theology less and political economy more, and then go into their pulpits and preach practical Christianity for every-day use, they would be doing a far greater work than they are when they talk about patient submission here, in order that reward may be had hereafter.

"Poverty and crime are results of laws which men have made, and we will have both so long as these laws are in operation. It is not the fault of God, or Nature, or whatever you may term the creative cause, that many men are poor, shiftless, and intemperate. The fault lies with the people, and with them rests the remedy and the responsibility. When the people are wise enough to remove the cause, the evil will disappear. It is about time for men to stop repeating that antiquated statement that intemperance is the prime cause of poverty, and take up the study of how to remedy the real cause—enforced idleness."

Moral: Prohibitionists had better help in taking away the worst cause of drunkenness, which is not, as they think, the supply of alcohol, but the social conditions which drive men and women into the bar-room.

Prison Reform

The great aim of prison reformers is to turn criminals into useful human beings. The best method towards this end is to put them to useful work, with some profit or advantage to themselves, however small, which has the further advantage of making our prisons self-supporting, instead of causing the honest toiler to sweat for the scoundrel. The method is rational, and consequently not to be permitted on any account as things are. Our manufacturers and artisans who declaim against prison work are perfectly in the right when they assert that every day's work of a criminal takes away a day's work from an honest man, and tends to turn him into a criminal career.

Moral: Be happy that, in these times of over-production, you always have the criminal among you; and agree with the humorous homage to the burglar once paid by W. S. Gilbert in the columns of the *London Times*. The renowned librettist said that he could never fully understand the prejudice against burglars. "An arrested burglar gives work to innumerable telegraph, police, and railroad officials; and possibly also to surgeons, coroners, and tombstone makers. As soon as he is in custody, the service of a whole army of lawyers, judges, petty and grand jurors, reporters, prison administrators, and turnkeys are put in requirement. Certainly the burglar effects more good than harm."

Anyhow, I agree with Carlyle that there are far more pressing tasks for us on hand than this. When he inspected a model prison he wrote:

"For all round this beautiful Establishment, or Oasis of Purity, intended for the Devil's regiments of the line, lay continents of dingy, poor, and dirty dwellings, where the unfortunate not *yet* enlisted in that force were struggling manifoldly—in their workshops, in their marble-yards, and timber-yards, and tan-yards, in their close cellars, cobbler-stalls, hungry garrets,

and poor dark trade-shops, with red herrings and tobacco pipes crossed in the window—to keep the Devil out of doors and *not* enlist with him. And it was by a tax on these that the Barracks for the regiments of the line were kept up. Visiting Magistrates, impelled by Exeter Hall, by Able Editors, and the Philanthropic Movement of the Age, had given orders to that effect. Rates on the poor servant of God and of Her Majesty, who still serves both in his way, painfully selling red herrings; rates on him and his red herrings to boil right soup for the Devil's declared Elect! Never in my travels, in any age or clime, had I fallen in with such Visiting Magistrates before. Reserved they, I should suppose, for these ultimate or penultimate ages of the world, rich in all prodigies, political, spiritual—ages surely with such a length of ears as was never paralleled before.

“If I had a commonwealth to reform or to govern, certainly it should not be the Devil's regiments of the line that I would first of all concentrate my attention on!”

Waste in Distribution

In the chapter on “Socialism” I shall express myself unservedly on our wasteful system of distribution. Here I state my conviction that any improvement in the methods of distribution, or any other saving of labour which does not result in a corresponding consumption, can only deepen the prevailing misery by increasing want of employment. The middlemen, who now consume without producing, would then try to produce without consumers.

Moral: Co-operators who busily construct a mere dividend-procuring machine are doing evil. They can only do good work by making co-operation that for which it is splendidly adapted—the most powerful engine of fundamental social reform.

Other Waste of all Kinds

Who has not been disgusted with red tape, with the waste of labour going on in Government offices all over the world? Well, let us abolish it; let us do away with flunkeydom; let us economise and be thrifty as much as we can; and then let us

see how we can keep alive the millions of additional unemployed that under the present system would result !

Moral : More waste, more useless officials at good salaries, more Marchand million dollar bedrooms, more Vanderbilt \$200,000 dinners, more million dollar baths, more yachts, more palaces, etc.; but for Heaven's sake no more industrious workers ! This adjuration is required to-day even more urgently than it was eleven years ago, when I penned the following lines ; because compound interest has continued its nefarious work al this time :

" The praise of industry sounds from every pulpit, is dinned into our ears by millions of leaden soldiers from the type-foundry regiment, leaving the impress of their footsteps on millions of tons of paper which go forth as dailies, periodicals, or books. How strange that we find a growing fear of industrious workers, and that we do our best to send them out of the country, or to prevent their getting in. Emigration societies are founded, laws against the immigration of foreign workers are enacted or demanded. The rich drone is welcomed everywhere, and glowing advertisements set forth in rose colours the advantages of different towns in order to attract him ; whereas workers are warned off in every possible way. It is a natural result of the unnatural state of things we live under ; for consumers are wanted, and producers shunned in a world in which the purchasing power of the masses lags more and more behind their producing capacity."

New Inventions

In the same way, we have every reason to fear any improvements in the arts of production and transportation, as long as we have not opened the flood-gates of a correspondingly increased demand to the additional stream of production due to the new inventions. Here again the instinct of the people sees clearer than the logic of the scholar in his study. They curse the linotype, which he welcomes. He rejoices at the new automatic power loom which trebles the productive power of each weaver, while they revile. They are right ; for where we cannot sell enough, increased productive power presses with a heavier weight on the workers whom it deprives of employment.

Effects of the Reform

All this will be entirely changed by a fundamental reform which keeps the purchasing capacity of the masses parallel to their productive power. Anything which increases the one must then result in an equal increase of the other ; so that production will no more be fettered by the very elements which are meant to promote it. Peace, temperance, and economic distribution, the stoppage of waste of all kinds, will cease to deprive the workers of a chance to make a living, and will enable them to earn more with less labour. Labour-saving inventions will prove the real benefit to the working masses which they are now wrongly supposed to be. They will increase wealth production while lessening toil and working time. They will enrich the worker, and enable him to become his own employer, working with his own tools, instead of continuing to be instruments of oppression through their association with the tribute capital which transfers to them its power of claiming interest. The destruction of this kind of capital must be the wage worker's endeavour, and not only his, but also that of his employer, of workers of any kind, whose real interests cannot be truly disjoined. There ought to be no more antagonism between the two camps who now waste their best energies in fighting each other. Instead of being at loggerheads about factory acts, about working time, and minimum wage, both ought to unite in fighting their common foes : private land monopoly, metal money, and the dire offspring of those twain—interest.

False Friends

I warn the workers especially against those false friends who try to hide from them the real nature of present institutions. Those owners of large estates, allied to the men who make a living by selling or conveyancing land—those eloquent preachers against the wicked ones who want to despoil the poor worker of the little plot which he has been saving up for during so many years ; or the money-lender, who rallies him to the defence of interest, pointing to the benefit accruing to the poor saver from his investments in the savings banks or life insurance companies ;

or the banker, vaunting the good old sovereign or the honest gold dollar, and warning him against worthless paper which is bound to ruin the industrial classes.

I have seen smart men walk into such traps, who would not be taken in by the cajoling of a horse dealer, for instance. The dealer may say that never in this world was there such an animal as the one he is trying to palm off; and he may declare that he has not the least personal interest in any immediate disposal, for, at such a ridiculous price, he can sell the horse at any time. He may asseverate that he speaks out of pure philanthropy, because he knows how hard Mr. Green has to work for his money, and how much he requires a really good Clydesdale in his cart. But Mr. Green is shrewd enough to estimate the horse for himself, and the more his equine beauties are extolled, the less our working friend admires him. Instead of acting on the same principle with those humbugs who want to prove to him that they only consult his welfare in advising him to stand up for rent and interest, he believes them. If he did not, the world would be a good deal farther advanced.

I cannot help applying in another sense a metaphor already used: that of the wolf preaching to the sheep that the right of devouring other animals is one of the sacred natural laws, equally beneficial to all creatures, and therefore not to be infringed by anyone without extreme danger. "These agitators want to deprive you of the right you have to gorge yourselves on wolf flesh; just think of it!" Or let us imagine a slaveholder telling his human chattels that slavery is a profitable institution to them. "Has not Cæsar, a former slave, after buying his liberty, bought several slaves for himself? Why should not all of you have the same chance?"

The Worker's real Interest

Let the worker calculate how much his share in the nationalised land would amount to, and how much he can ever hope to own, under present conditions. I have shown in Chapter II. that the nationalised rent would yield enough to ensure him and his wife a higher pension for every single year after his retirement from work than, in ninety-nine cases out of a hundred, the whole value of the little plot of land which he can ever hope to possess

free of debt, would figure up to. I could equally prove to him that the amount of interest he pays during his life in the price of everything he buys or of every pound he borrows, as well as in the loss caused by lower wages or unemployment, due to the interest paid by his employer, exceeds a hundred-fold the interest he obtains for his scanty savings from the savings bank or through the reduction on the premium he pays to the life insurance company. But all this dwindles into the background when he takes a broader view, when he comes to understand the part which the institutions thus praised to him play in the economic process. When he has once realised the truths which this book tries to inculcate: that the social mystery of the past and the present century—the problem of want through superabundance, which has succeeded the familiar and explicable difficulty of misery through insufficient productive power—that this seemingly incomprehensible problem is due to capitalism; and that capitalism must perish when its roots, rent, and interest are destroyed with the soil of private ownership and hard legal tender money which they luxuriate in—when the worker has thus gained the solution of our present-day problem, he will behold the dawning of a new era. Instead of clamouring for more labour laws, he will join his employer—after all, only a worker like himself—in the great fight against monopoly, the soul of capitalism.

I know it is far more difficult for him to penetrate into the depth of such a complicated problem than to understand that the more wages he can get the more he can spend, and the less time he works the more billets there will be. However, it is not necessary to enter into all the intricacies of the case. It does not need so much understanding and study to master the following

Two Fundamental Truths underlying the Land and the Currency Questions :

1. It cannot be in the interest of the man who uses the land for habitation and for work to see it employed as an instrument of extortion by anybody. Extortion can only be practised at the expense of labour, and labour must in the long run lose by it, even though some workers may finally benefit through themselves rising to the bad eminence of extortionists.

2. A money which is based on labour and its products is of easier access to the producer than a money which consists of one scarce product only found in distant mines not accessible to the majority of workers, and mostly in the possession of capitalists. And it is self-evident that *a paper money whose issue depends on changes in the price level of general merchandise is really based on this merchandise, i.e., on labour and its products.* The very fact that prices are kept unchanged on the average, means that the worker can at any time obtain his full money's worth for his merchandise or for the labour which produced it, provided always that he can obtain easy access to natural opportunities. In such a case, production can never outrun purchasing power ; or, in other words, merchandise and money have become equals. Money can at any time change into merchandise without having to fear a rise of prices, because rising prices would at once restrict the money circulation, and thus force prices down again. Nor need merchandise be afraid of not being at any time able to exchange against money at normal prices, as any fall in prices would bring more money into the market ; the very reverse of present conditions, when a fall in prices renders buyers apprehensive of a further fall, and thus locks up money, with the well-known disastrous effects. In the next chapter I shall prove more fully that scientific paper money is really labour money.

After these simple truths have been mastered, no sophistry put forth by the interested parties can eradicate the conviction that land and currency reform, whatever effect they may have upon the fortunes of certain gentlemen, must assuredly benefit the worker at large. The full extent of this benefit may not be discerned without a deeper study of the subject, but even the most superficial consideration ought not to find it difficult to realise how a money practically based on labour—as, under its reign, labour and the products of labour are always at the disposal of, and can at any time convert themselves into money—must make it

An Easy Matter for Labour to free Itself from all Debts

to capital within a very short period. The productivity of the world's labour, immense already, and increasing from day to day

through new inventions and improvements in the processes of production, is capable—if unfettered—of evolving such prodigious wealth that all our debts, enormous as they are, could be paid off at an early period. But before this term is reached—in fact, from the very commencement of the general reimbursement period—interest would be a thing of the past, and debt would lose its sting. The relation of creditor and debtor would simply mean that a certain number of people have

Deferred Consumption,

while others consent for a while to use that wealth in the shape of tools of production, to hand it back in the form of articles of consumption of all kinds at the time when the lenders want it. For the advantage reaped from the use of the tools, the borrowers would render the service of preserving their creditors' wealth intact. The longer the period during which wealth is thus freely lent, the better for the borrowers. If the lender is so rich that, as in the case of the Rothschild family, the mere consumption of the accumulated wealth, without interest, would give a yearly income of £100,000 during several thousand years, this would simply mean that many generations of workers need not at all think of reimbursement, that they may almost look at the capital as belonging to themselves. Practically, the liquidation would probably terminate somewhat more expeditiously, for it is not to be supposed that, in a world in which the wealth-producing power of labour benefits only the workers, and thus conquers for them the highest rungs of the social ladder, anybody should want to continue living as a drone. Where only the self-made man is honoured, inherited wealth will finally be flung away as something derogatory.

A Precedent

to what will happen is supplied by what has happened in the past. Professor Roscher tells us in his "*System der Volkswirtschaft*" (Volume III., p. 21), that in the year 1293 "the citizens of Florence made a law according to which the Grandi (noblemen, patricians), who had to be members of a guild to enjoy the privilege of sitting in the Council, had to actually work in their trade, if they did not want to risk the loss of their franchise.

. . . People could be ennobled as a punishment. . . . After the expulsion of the Duke of Athens, the most popular noble houses obtained permission to relinquish their nobility. In Pistoja all the disturbers of the public peace were entered into the register of nobility (1285). In Guelphic Parma all the Ghibellines were ennobled (as a punishment) in 1284."

This reads like satire, and certainly appears as strange as my prediction of the future; and yet it is historical fact, recorded by a careful German university professor. But results more wonderful will follow our land and currency reforms. We have become so accustomed to the present state of things that it is hard for us to realise how difficult it would be to make anyone used to natural conditions—

An Immigrant from another Planet,

for instance—understand our present plight. It would be almost impossible to make him comprehend how, with such a wonderful productivity of labour, the workers could not soon free themselves from all their obligations—had not long since gained the ownership of all wealth. He might at last perceive what made our ancestors commit the folly of selling their terrestrial birthright, or how they were deprived of it by fraud or force. He would thus recognise the fundamental basis of all the land titles of to-day. But how explain to him that the workers, with their untold potential wealth, had not long since bought back the land? We should have to tell him that we make a pretty yellow metal our fetish and our sole legal tender; and then, perhaps, he would grasp the whole position. Much more difficult is it for our workers—blinded by the veil of habit—to see that a money based on labour and its products would wrench asunder the golden links of the slavery chain which centuries have forged around their brawny arms. So soon as our interplanetary guest learned that debts in this world are not payable in labour's products, but in coins made out of the scarce pretty metal of which not enough exists to pay one-twentieth of the obligations contracted in its name, he would easily comprehend the rest. With any logic at all, he could not fail to realise that, under such circumstances, the creditor class is bound to become richer, the debtor class is sure to grow poorer all the time. The former play

The Bull Game

lately worked so successfully at the New York Stock Exchange on the Bears in Northern Pacific railroad stock. The Bears had sold more of the stock than existed, and, as a natural consequence, had to accept any terms the victorious Bulls chose to inflict on them. If, instead of claiming a comparatively moderate fine to free the others from their engagement, to deliver something which did not exist, the victors had so forced up the prices of the stock that all the wealth of the world would have been required to compensate them, there might have been no legal impediment, except that unwritten law according to which, as the German proverb says: "Wo nichts ist hat der Kaiser sein Recht verloren" ("Where there is nothing, the Emperor has lost his rights"). The bankruptcy of the debtors after they had given up all their possessions was the only practical limit, and the spoilers had reasons for stopping short of this extreme result of their power. The world's creditor class is in exactly the same position towards the world's debtor class; the difference is only that the deficit between the money stock and the engagements to deliver it is by far greater in their case than in that of the Northern Pacific stock. The debtors have promised to pay from twenty to thirty times more gold than the world possesses, and the creditors give them prolongations of the engagements against the payment of fines, called interest dues: fines which are payable in the same unobtainable gold,¹ so that in this twentieth century the interest dues of one single year by themselves alone exceed the whole gold stock in existence. In spite of this fact, fines upon fines are added, interest and compound interest further increase the debt, until bankruptcy liquidates the account. And even this is not all.

¹ I repeat that even these fines (interest) are the lesser evil, for they alone call forth money from its hiding-place, and thus keep up circulation in some measure, which otherwise would be totally interrupted, as it almost is in times of panic, when even the expectation of interest cannot call forth the money.

Gold and Land Monopoly

By rendering the legal tender coins—the basis of our currency—less and less accessible to the producers and dealers (who imperatively require a means of exchange), the creditor class have succeeded in monopolising, to a certain extent, natural resources on the score of their gold claims. The rent tribute grew with the interest claims, and heavier and still heavier manacles were imposed on the purchasing power of the masses and consequently on production, so that this purchasing power and production were increasingly surpassed by the growing productivity of labour which enables the few to do the work formerly done by the many. Manifestly, then, the many must gradually be thrown out of employment; the few only, and the machines which they tend, are kept busy. The wages of the lucky ones still at work are reduced through over-competition for the scarce billets proffered by the requirements of the rich.

Thus, then, our interplanetary guest would realise by what means progress necessarily produces poverty in this world; and how wages (the average earnings of all classes, partly employed and unemployed included) must finally decrease, certainly in comparison with the general output, perhaps even absolutely—a downward tendency which is otherwise unexplainable. But progress is bound to raise wages where prices remain stationary; and this would be the case with the new currency, for the cheapening in the processes of production and distribution would no longer press upon prices, but would permit wages to rise in equal measure with improved facilities—provided that to the currency reform is added land reform, for then would vanish the last remaining shred of monopolistic power to seize the lion's share of this world's good things.

I hope I have succeeded in proving that with the destruction of capital in the sense of *property, which can procure an income without any work on the part of the owner*, capitalism must disappear, and the orthodox capital, the tool capital, thus having become simple wealth, wealth production will be freed from its fetters, and will keep at the level of productive capacity.

This chapter summarises the theories which were gradually

evolved in the preceding part of the book, and it is the keystone of the whole work. If I am correct in my conclusions—and I believe that I have strictly adhered to established facts in forming them—then a new light is thrown on the nature of the great social problem, and on the relation of the different classes to this problem and to each other.

The Conflict is no more between Employer and Employed, or between Wealth and Poverty, but between Monopoly and Freedom

The domineering class sits on the rest of mankind as the Old Man of the Sea sat on Sinbad the Sailor, gripping firm hold with the two knees: Land Monopoly and Money Monopoly; and the suffering mass asks no further concession than that the class shall kindly get off its back. The question lies not between the competitive system and co-operation, as socialists think—whatever reforms may yet be found desirable in that domain—for both systems can be practised under slavery. It is simply a fight between liberty and slavery. It is the power of preventing free competition by monopolising land and money which causes the struggle, the devil-take-the-hindmost-fight we are daily witnessing.

Not Competition, but want of Openings

A theatre is burning; in headlong flight old and young, weak and strong, men and women try to gain the outlet—a single small door blocked by a frantic mass of fighting humanity. Five hundred corpses are found the next day, and people are discussing the cause of the disaster. Some pretend that if, instead of this mad competition for the only outlet, there had been peaceful co-operation, or if the State's policemen had maintained order and forced the people to walk out in a regular procession, all would have been well. Perhaps so, or perhaps only half of the spectators would have perished; because, in the calmest and most methodical manner, all could not pass through so small an opening in such a limited time. But a sufficient supply of doors would have allowed all to escape, never mind whether order reigned or not.

Open the Gates !

Liberty is the perennial source from which alone a higher civilisation can flow ; slavery proves to be a curse for the master as well as for the slave. Yes, also for the master, if it were for no other reason than that given by John William Draper in the "Intellectual Development of Europe": "The high caste is steadily diminishing in numbers ; the low caste is steadily increasing. In impervious pride the patrician fills his private jail with debtors, he usurps the conquered lands. *Insurrection is the inevitable consequence—foreign war the only relief.*" What was true of old Rome is true of our times. The tendency of concentrating wealth in a few hands is even more marked now than it was in the days of which Draper writes.

The Terrible Danger

Those who are on top forget how insignificant their number really is. They meet in their drawing-rooms, in their boxes at the theatre, their ball-rooms, and public drives ; and seeing each other so often, they obtain the impression of large numbers, as in the case of those histrionic armies composed of the same few men who march out at one side of the stage to come in again on the other, occasionally changing their helmets and arms if there is no time to don another uniform. Thus our upper classes do not realise how thin is the shell which they form on the social globe, comparatively thinner even than that of the solid crust over the fiery masses of our terrestrial globe, supposed to be about 1 : 150. We hardly ever stop to realise the flimsy nature of the envelope which protects us from those volcanic underlying masses. We quietly go about our business and pleasure, until once in a while an earthquake or an eruption disturbs us in our careless dream-life, reminding us of the terrible powers beneath our feet. So our plutocracy lives from day to day, investing and speculating, accumulating and wasting, without thinking of the turbulent masses on whose shoulders their palaces are built, until an insurrection, sometimes growing into a revolution, shakes them out of their crazy indifference. Or the Medusa head of anarchism is descried with horror for one moment.

A Carnot, a Humbert, a M'Kinley drop under the assassin's bullet or knife, and the mad dance is suspended — to be renewed instantly as if nought had happened. And all the while, the very forces which should prove the greatest blessing to all serve to increase the tension. Our Divine Master has not given us a very long time for that peaceful evolution of humanity which may yet possibly prevent the most frightful revolution this world has ever witnessed. We may guess the power of the reaction by that of the forces at work towards a culmination of the evil. You who have the capacity and the means to hasten the day of reform, hurry up in your own interest while yet you may! You may not secure your own future, and certainly you cannot provide for your children, in any other manner. Those fortunes which you may leave to your heirs will crumble to dust, for they are nothing but mere titles to slave services which become waste paper on the day that sees the slaves break their chains. But you can leave behind you something immensely more valuable and indestructible: a free world in which every talent has scope; in which easy and pleasant work, less exhausting than those idle pleasures, or so-called pleasures, which now absorb your time, will provide your children with all they need; a world which the gratitude of millions would transform into a paradise for you and yours, from the hell which even hearts made callous by the force of habit cannot contemplate without a shudder.

Enlightened Self-interest

I leave the task to others to appeal to higher motives. Experience has shown me the value of such appeals, where the mind is so immersed in selfishness that the eyes cannot see beyond the artificial wall of environment into the depth of eternal truth. Be selfish, if you cannot help it; only, in your selfishness, be at least as practical as you are when you give orders to your stockbrokers. Weigh in your mind which enterprise offers the best chances of investment: the limited company (in which you are as yet a main shareholder) chartered for the purpose of sawing the branches on which you are sitting, and endowed with an immense capital to do the work as speedily as possible, with golden saws tipped with diamond compound interest teeth; or that other company, whose share register has

as yet few subscribers, but whose object—among others indifferent to you—is to supply you with a safer support than the branch on which you so strangely rely. Oh, Carnegie! great iron master and college founder, think of it for one single moment! What you are now doing can only help in the branch sawing business; for everyone of those thousand poor scholars whom you provide with the means of education will, at the end of his studies, find himself in a world where knowledge and ability become every year more incapable of making headway against stupid mediocrity that is the inheritor of monopolies, the slave-driverswinging his whip over the skilled and the unskilled worker, over the scholar and his intellect as well as over the ditcher with his brawny arm. Then will they curse the larger vision you have helped them to achieve; for they will see beyond the mists which as yet veil the truths of life from the ignorant many, and they will discern that your benefactions to themselves were fruits of that very system—that Upas tree—which has poisoned the whole anguished world.

Oh, Carnegie! oh, Rockefeller! a fraction of the sums that your philanthropy is misdirecting would launch a reform propaganda which—controlled by your genius of organisation—would transform this planet! Peacefully would the marvellous change be effected, and long before it can be reasonably anticipated by other means. Already, though unwittingly, you have done great service. You have helped to demonstrate that national and even international centralisation of production and distribution is possible. When anti-socialists invoke their familiar: Subjection-to-the-iron-rod-of-officialism, their incantations no longer excite alarm; for officials elected by the people could not be more odious than your vicegerents are in the departments of production and distribution. You merit well of the American people, for you manifest to them that the issues no longer lie between free individualism and socialism, but between socialism for the few and socialism for the many. Men like you, and still more especially, men like Tom L. Johnson—the creature of monopoly who exerts his power and his wealth to combat monopoly—may be important factors in the general betterment, may advance incalculably that peaceful and brotherly development longed for in the heart of the human race.

CHAPTER IX

EXCHANGE BANKS AND CO-OPERATION

Exchange Banks

I CANNOT give a better explanation of Exchange banking than by reprinting that which I gave in my *Pioneer of Social Reform*, the official organ of the New Zealand Commercial Exchange Company, Limited, usually called the Exchange Bank, which I founded in October, 1898:

“The Commercial Exchange Company is a club whose members are men of different trades coming together to do business with each other. They are grocers, butchers, bakers, tailors, shoemakers, farmers, and so forth, who need each other's products; but barter, the simplest way of getting them, is out of the question. Barter may do between two parties of whom each needs what the other wants to get rid of, but not between a hundred of whom number one wants what number two can spare, number two what three wishes to dispose of, and of whom finally only number one hundred has any use for what number one offers in exchange. Under such circumstances, a medium of exchange—money—is necessary to pass from one to the other until it returns to the party who began.

“We all know how our butchers, grocers, tailors, shoemakers, etc., obtain this medium of exchange at present, if they are not fortunate enough to own it through having received it in payment before they need it. They go to a bank or a loan office and borrow certain pieces of a yellow metal, called sovereigns, or in most cases they only obtain the privilege of drawing little paper scrips, called cheques, with which they pay each other, until finally, after the sovereigns or the cheques have passed from number one to number two, etc., and number one hundred has paid them to number one, they are repaid by

number one to his bank. For the right of drawing these paper scrips the parties pay an interest tribute to the bank, and are only too happy if they are allowed to do so ; for the banks are very particular, and do not allow everybody the privilege of paying this interest. They accept this tribute only from those who can supply sufficient security that they will repay the loan at any time at which the banks demand it. If the banks do not obtain such security they will not give the loan ; they will not allow the parties to draw the little papers unless they have paid in a corresponding number of the yellow coins called sovereigns, or their substitutes.

“This is the way in which things have been going on for some time now, and have been getting unpleasanter the more prosperous the people became. This sounds strange, but it is a fact, nevertheless ; for the greater prosperity of the people resulted in a more extended trade, and this trade extended much faster than the stock of yellow pieces, or—what amounts to the same thing—of gold bullion which the Mint coins free of cost for anybody. This had the natural result that it became more and more difficult to induce the banks to allow the drawing of the paper scrips called cheques, for the danger grew that such scrip-drawing without a previous deposit of the yellow metal, called overdrafts, might result in general bankruptcy of the banks and their debtors, for the paper scrips are only accepted as long as the people believe that sovereigns can be obtained for them. The very moment there is any doubt about this, nobody wants the papers, but everybody will insist on receiving gold, refusing even other kinds of scrips called bank-notes, which differ from the cheques only in being drawn on the banks by their presidents, and payable to anybody who presents them at the banks, without their subjecting him to the trouble of signing or proving his identity. Here, in New Zealand, the stock of sovereigns in the bank vaults amounts to only one-sixth of the deposits, which means of the amount of sovereigns due to parties who have brought sovereigns, or an order for sovereigns to the banks ; and this does not include the debt to the holders of bank-notes who also have paid in gold for them, nor the debt of the Postal Savings Bank.

“Now, the very moment these depositors become afraid that

they may not be able to obtain the gold due to them, they will at once call for it, or anyhow, those will do so who have a right to call for their gold at any moment, and these, including the holders of bank-notes who have the same right, and the depositors at the Postal Savings Bank, have a claim about five times as large as the gold stock of the banks. As the banks are well aware of the danger thus threatening them at any moment—the threat has turned into a reality at different times already—they become more particular about giving credit, the more the excess of scrip circulation over the gold stock increases. We have such a period just now, for trade has increased very much all round, but the gold stock of the banks has not grown at all. Consequently, the demand for the paper scrips had to increase also, because without them no trade is possible, as the real sovereigns are too scarce to keep up our trade for a single day. The greater the demand, the greater the danger that the small gold stock might be depleted, and the more particular the banks are about giving credit, even at a high rate of interest. In this way it comes about that of all those people who want to trade with each other, a great many cannot obtain the right from the bank to draw the cheques they need to pay each other, and many cannot even get a loan from the loan offices; and if they do, they have to pay interest up to 60 per cent.

“Now, these people, or a certain number of them belonging to different trades, meet in their club, called the Commercial Exchange Company, and say to each other: “Are we not great fools? Why do we go to the banks and loan offices to obtain the right to draw paper scrips to pass them from one of us to the other, and finally to the banks again? Why not agree to draw those paper scrips upon ourselves, and to hand them back to ourselves? It may be done in a very simple way. We first appoint a number of trustees whom we call the Board of Directors. These print scrips somewhat like the banks’ scrips, called cheques and bank-notes, only with the difference that these scrips are not payable in gold sovereigns, but in the goods and services which the members require from each other. In reality, the present scrips of the banks are nothing else for most of us, for we take them, not because we want gold for them—in fact, we take them though we know that if it came

to the stretch we could not obtain the gold—but because we know that those whose goods and services we require take them in payment. If this certitude that those whose goods or services we wish for will take the scrips in payment is all we need, and if we who meet in this club require each other's goods and services, all that remains to be done is that we agree to accept our own scrips, and then we can borrow these scrips from our trustees, who issue them for us, and repay them to the trustees when we have received them back from other members of the club. All we have to do to feel sure that we can safely accept the scrips from each other is to instruct our trustees to make sure that no member obtains the scrips on credit, unless we can absolutely rely that he will supply goods or services for them when some one of us calls on him for these goods and services. Of course, we shall give him a reasonable time for such delivery, because such time is given even where we come with sovereigns in our pocket. With millions of cash money in our possession, we cannot claim a pair of boots made to measure, at a moment's notice, but must give the necessary time to make them.

“Here we have the whole secret of the Commercial Exchange Company. Its members supply to each other a means of circulation with all the qualities of that at present in use, merely leaving out the roundabout way of occasionally claiming gold pieces which are only wanted to pay for the goods and services which our papers promise directly. Thus we not only avoid the interest tribute due to the owners of the gold pieces, but the danger inherent to promises of things which do not exist. The task devolving on our trustees, to make sure of our members' solvency, is easy when compared with that undertaken by bank managers. The most cautious of these cannot always avoid disaster, for nobody can be sure of always being able to deliver things which are not in existence. Our trustees are under no such difficulty, for the productive power of our members will always largely exceed the demands upon it. The general complaint of ‘Over-production’ shows that our trouble is not want of productive power, but the difficulty of selling the products. This difficulty will be at once got rid of when selling is no more exchange against a scarce commodity coined into certain round pieces of which not nearly enough can be obtained to satisfy

the demand, but exchange against the products of others. Over-production will be a thing of the past, and also under-consumption; the main cause of insolvency will be taken out of the way—the discrepancy between productive and purchasing power. As, through our immense technical progress, productive power is far ahead of our wants, there can be no danger of our not being able to produce enough; and as, in consequence of our scheme, productive power and purchasing power are at a level, the difficulty of disposing of their goods and services will have disappeared for our members, and with this difficulty the principal cause of failure in business will be out of the way. Honesty, capacity, and freedom from dangerous outside debts, will therefore be the only criterions required by the trustees—by the Board of the Commercial Exchange Company—and the danger of loss by failures will be reduced to a minimum, for which a slight risk premium paid by the borrowing members will provide. Probably the time will come when this premium, including the club expenses, the cost of employees, printing, postage, office rent, etc., will not reach $\frac{1}{2}$ per cent. interest for the loans of the scrip (exchange paper). In the beginning, up to 6 per cent. is demanded to provide for a reserve fund; and as this reserve fund will be the property of the members, our debtors in reality do not pay the 6 per cent., for part of the amount is only money put from one pocket into the other. It is money saved for a rainy day.

“We hope that this short explanation will make clear to every one desirous of information what the Commercial Exchange Company really is. It is a club of producers and traders founded to furnish each other with a means of exchange, a set of counters, for the purpose of enabling them to trade with each other. There is nothing to prevent our club from gradually embracing all members of the community, and it is in the interest of every member to help to extend the circle so as to have it embrace all trades, so that anything wanted by the members can be supplied in mutual exchange. Then it will be the affair of the members to decide whether they wish to continue the club in its present form, or whether they prefer to merge it into that other club called the State of New Zealand, making of the old club a department of the larger club under the name of ‘The State Bank of New Zealand.’

"People who know the country tell us that in many places—Masterton, for instance—you see hardly any money. Everybody is in everybody's books. The butcher in the baker's, the baker in the grocer's and tailor's, etc. What does this show? Simply that the force of circumstances has compelled the people to recur to a clumsy and primitive barter system because the medium of exchange is not accessible. It clearly demonstrates that our metal money does not accomplish the economic work it is meant for. Why? Because it is not only a counter, but also a valuable and scarce commodity. What we want to do for these people is to supply to them a money which is nothing but a counter accessible to every one who can furnish security that he will not abuse the privilege. Instead of the clumsy mutual book-keeping of the parties dealing with each other, we furnish them with our paper counters, which enable them to transact their business with far less trouble. Even in a simple game of cards, where three or four, or even two, persons play with each other, it has been found convenient and labour-saving to substitute counters for book-keeping. How much easier must the work be—where hundreds and thousands of parties in one town, or hundreds of thousands in the whole country, have to keep account of their mutual transactions—if counters take the place of book-keeping."

Owen's Labour Exchanges

I may as well say at once that, though I am the founder of the institution whose methods are here described, I am not the inventor of the system. According to George Jacob Holyoake's "*History of Co-operation*," in which a whole chapter is devoted to "*The Device of Labour Exchanges*," the American, Josiah Warren, was the originator of the idea, which he first communicated to the renowned socialist, Robert Owen, in 1826. Owen founded his first Labour Exchange, as the institution then was called, in 1832, in London. As was to be expected, the system had as yet many imperfections. The most prominent was the valuation of goods and services on the basis of labour time. Sixpence an hour was the price paid, though "the labour of a skilful oculist might be worth two guineas or five guineas an

hour. Who could appraise the value per hour of the chair painter and the landscape painter at the same sixpence?"

This was recognised by practical men, and it was urged that the "labour exchange needed the pawnbroker's faculty of quickly seeing what a thing was worth. The institution of the three balls has no great credit for putting an extravagant value on articles it takes in; but without compelling a depositor to take the least he could, the exchange managers should have a clear eye to not giving more than could be obtained for an article in a reasonable time if they had to sell it to a stranger. No advantage is gained by giving more than the value obvious to the outsider; for the moment that becomes known—and such a fact soon gets diffused—the labour notes are depreciated in value; for it is said, and said truly, that the exchange notes have no equivalent behind them. Taking articles into the exchange which the public knew were not ordinarily saleable, and giving notes for them by which useful articles could be obtained, led in the same way to the depreciation of the note, and for the same reason—that there was obviously no available and equivalent value deposited to represent it. If a man of business went into an exchange and saw persons depositing chimney ornaments and fire-screens, and carrying out kettles, good hats, and sound pieces of bacon, he knew at once that things could not go on."

As far as I can learn, the

American Labour Exchanges,

founded by G. B. De Bernardi about 1875, made use of Owen's experiences by only advancing on the goods as much as they were sure to fetch, paying the balance after sale, which explains the success some of them realised. It is natural that Owen's system of valuation proved a failure, and under such conditions it speaks volumes for the system that it effected the large turnover it had. "It was stated that in one week the deposits in the Gray's Inn Road bazaar amounted to little less than £10,000, and that if 4% out of the 8½%, said to be then charged for these deposits, were applied to the extension of the exchanges, there would be a disposable accumulating fund of £400 weekly; or if the deposits and exchanges proceeded at that rate, £28,000 per

annum would arise for that purpose. . . . At the Surrey branch in Blackfriars Road, which existed simultaneously with the Gray's Inn Road place, the total deposits soon amounted to £32,000, and the exchanges to £16,000. The public everywhere undoubtedly took great interest in the new system of business introduced. . . . It was perfectly clear that their rapid popularity showed that they really hit a general need, and good sound management must make them a profitable speculation to all concerned. At first, tradesmen around them readily agreed to take labour notes, and numerous placards were issued, and are still extant (preserved by Mr. Place), giving this notice to the public. As many as three hundred tradesmen gave notice that the labour notes would be taken at their places of business, and in some cases the theatres made the same announcement—that labour notes would be taken at the doors. Of course, these tradesmen took occasion to run round the exchange themselves, and see what kind of deposits represented the value of the notes; and when they found unexchangeable articles taken in at an unsaleable price they began to decline to take the notes, or take them at an ominous depreciation. These banks of labour required to be managed by business men, and honest men, with someone to see that they were honest. Mr. Owen had a weakness for 'respectable' friends of the system, and some of these—in one case a whole family of shrewd, talkative professors of the 'new views'—got put upon the directory, in one exchange or other, to the exclusion of less pretentious, but really honest, good working adherents, who really cared for the affair, and these adroit managers did business with their friends and acquaintances, and sent in articles of their own by other hands, and loaded the shelves with useless things which they appraised at a reverential rate, and gave information to the receivers of the notes what valuable and saleable articles they could carry away in exchange. Sharp shopkeepers thus got influence at the exchange, and sent down the worthless stock in their shops, exchanged it for labour notes, and before the general public came to hand carried away the pick of the saleable things, with which they stocked their shops. As they put in their windows 'Labour Notes taken here,' they were thought wonderful friends of the exchange. With some of them the proper notice in the window

would have been 'Labour Exchangers taken in here.' And these were the knaves who first began to depreciate labour notes and compare them to French assignates, and they well knew the reason why. On the other hand, there were honest and favouring shopkeepers who took the notes with a view to promote their circulation as currency, and gave saleable goods for them, who found themselves unable to obtain a fair exchange at the bazaar, and thus they became victims of the exchange scheme. The popularity and even profit of the deposit business were such that it bore this, until larger operations gave the thing a turn. These were the wholesale and general dealers, who systematically depreciated labour notes with a view to buy them up, which they did, and carried off all the saleable goods they could find at the exchange; and the silly people who first held the notes did not take time to find out what the depreciation meant. It is true these operators did not approve of the exchanges which appeared to threaten a new system of barter, and ingeniously devised means to discredit them and profit themselves in doing it. If Mr. Owen had been wise and vigorous in his choice of officers in the central exchange, the enemy might have been frustrated; but disinterestedness had become with him a second nature, and he took for granted the integrity of those who offered their services. When his suspicions were aroused, no man could see more easily or farther into a rogue than he. But, unfortunately, in those days these suspicions were generally awakened too late."

In spite of all, the exchanges prospered, and the stroke which killed them finally had nothing to do with their practicability. The greed of a landlord, who—incited by the great success—wanted the place in Gray's Inn Road for himself, to open an exchange of his own, drove Owen out. In fact, as Holyoake has it, "Labour exchanges did not perish because they failed, but because they succeeded. As is the habit of enthusiasm, the advantages of labour exchanges were exaggerated." They had to contend with the same difficulty as our

New Zealand Labour Exchange.

Not satisfied that it at once proved a means of mutual credit and of exchange which rendered trade possible, which en-

couraged production and consumption that otherwise would not have existed, members complained that mortgages or bank overdrafts could not be paid with the new money, that importers would not accept it in payment for their goods; and because the new money could not do everything from the very beginning, it was adjudged a failure by many, in spite of what it really accomplished. The circle was too small, as the people were holding back, one waiting for the other, all wanting to see the scheme's success before they joined, and it could never become a success unless they joined. There were too many odds against me. In the first line I did so much for the cause, giving both my time and money freely, that others did nothing, or almost nothing. Then there was the fear of the banks, whose credit was needed and might be lost if they heard of the debtor's membership in our company. As the large business houses are often those most dependent on the banks, they kept most shyly apart, and this crippled the work from the beginning. We had to be satisfied if only part payment was accepted in our paper; the balance, often as much as was required to pay cost, being required in cash. Still, some progress was made; and since the seat of the company has been moved to Auckland, another managing director taking my place, it is to be hoped that more headway will be made. Especially one feature is very promising: the Exchange and Mart system, of which the following article from the *Pioneer* gives the full details.

"Exchange and Mart

A New Departure

"By those who know of the wonderful success that has been achieved by the London paper, *Exchange and Mart*, our heading will be at once understood. To others, some little explanation may be needful. A man wishing to exchange, say, a piano for a buggy, inserts a line to that effect, and in a populous city like London can easily meet a man who has a buggy and wants a piano. Thus, though the system in vogue there is exceedingly clumsy, thousands of such exchanges are made. In New Zealand the same thing has been tried, but always with ill

success, and no wonder. In a limited population it is most difficult to 'pair' in this way. A dozen men may wish to exchange a buggy for something, yet not one may want a piano, and *vice versâ*. By our method that difficulty is entirely avoided. The man who wants a buggy for Exchange notes has a choice limited only by the number of buggies for sale in our Exchange and Mart, because the successful vendor may, with Exchange notes, purchase certainly whatever else may be advertised, and probably will find something he may need.

"But some will ask: 'What advantage does this system possess over that of offering goods for ordinary money?' Only this: That through the acknowledged scarcity of ordinary money the choice is more limited than by the clumsy system in vogue in London, hence the popularity of that system; whereas with Exchange money the choice is greatly extended.

"In this innovation we think we are satisfying a long-felt want. Few are those who have not something which has outlasted its usefulness to them, which may yet be the very thing that others need; and fewer still are those whose wants will not increase with this improved facility of satisfying their needs by parting with articles no longer of use to them.

"We commend our 'new departure' to all, believing that no equal facilities for exchange have ever yet been provided. We shall have a beginning of these advertisements in our next issue."

"There is hardly anybody in the country who has not got something he would like to part with, and something else he would like to obtain in return. Here is one who has some books he has read long ago, and does not care to read again, but would gladly exchange against some works he has not read yet. Another man wants a carpet, but has no ready money, whereas he is in possession of a baby carriage for which he has no more use. And so a list might be accumulated comprising a large number of the necessities and luxuries of life. As a rule, each of the parties keeps the, to him, useless article, and goes without the one he would like to get for it, because few like to take the trouble of going to auction-rooms to sell and buy there. A thing sold at public auction or found in a second-hand shop finds little favour in the eyes of most people. We do not know its history; we do not know who has used it,

whether its owner may not have died of some infectious disease or, perhaps, was a disgusting personage. In short, there is an unpleasant air of suspicion about the thing. Nor is the price so tempting, as a rule, after the profit of the middleman has been added; and last, but not least, cash has to be paid, and cash is so hard to get. If we can obtain it, we drive hard bargains, and cut prices as low as is feasible.

"The things we like to get rid of would bring in some of this cash, but maybe so little after the middleman is paid that it seems hardly worth while to send it for public sale, to which many have an objection, anyhow. It is so like profaning our home when we expose to the public gaze things which have formed part of the home. The case is entirely different when we can sell in private, and when the thing we buy comes from a known source. But the difficulty is to find somebody who needs just what we want to dispose of, and who has just what we would like to get in return. This is possible only in monster cities like London, where millions want to dispose of certain commodities, and where the same millions want to obtain other things in return. It is only there where the two parties, who have just what they mutually want, can be found, and it is in such cities only where we find the Exchange and Mart business prosper. Everywhere else the exchange can only be effected through the intervention of money, and money is so scarce.

"It is true that only one-half of the people desirous of exchanging with each other must find the money, for the other half then can take this money to buy what the others have to sell, who thus get it back again; but not only have we the initial difficulty of finding this money for the first half, but also the well-known fact that after the sellers have obtained this money they will mostly use it for more pressing needs, or will save it, leaving the possessors of the objects for sale with the things on their own hands as before. These men have bought what they wanted, but they find just the same difficulty of selling what they want to dispose of.

"Now, here our Exchange money comes in to solve the difficulty. All who want to dispose of chattels for other chattels have only to state in our Exchange and Mart column what things they want to sell for other goods offered in the column,

and we shall soon obtain an extensive list of such goods. Their choice will be sufficiently wide to render it possible that almost everybody can be suited. All to be done now is to lend our paper in the usual way to those who want to make a beginning with buying, so as to enable those to whom they pay over the paper to buy in their turn, until, in the course of time, they can sell their own superfluous chattels, and thus obtain back our paper, which they repay to us.

"It is to be hoped that through pushing this branch, the only thing needed to make our work a success—a larger membership—will be obtained. We shall open the Exchange and Mart column as soon as a comprehensive list has been compiled from our members' statement of their mutual wants. All members who want to help the work are requested to send in a list of things they want to sell, with full description and prices. Their names will not be published, and will only be given to those who make application to the office. All who join will help the movement; they will do better still if they also bring in others as members of our Company, or as subscribers to the Exchange and Mart columns. It is their active help we now desire in a further extension of our work."

Since the *Pioneer* published the above articles a store has been rented where members can bring the goods they want to sell and exchange.

Notes or Cheques

I advised my successor to stop for a time the issue of exchange notes to bearer, which had circulated in five different kinds: sixpence, one shilling, half-a-crown, ten shillings, and one pound. The main part of the text reads: "The holder of this note is entitled on or within a reasonable time after presentation to goods or services to the value of . . . from those members of the New Zealand Commercial Exchange Company, Ltd., who are liable to supply goods or services." If new issues should ever be made, the words "or within a reasonable time" will probably be left out, as it is a matter of course also in the case of ordinary money that goods cannot always be at once forthcoming when the money is tendered. If we order a suit of

a cloth which has first to come from a distance, all the treasures in the world could not produce it at once. I had put in the provision in order to guard against any confusion with the terms valid for our ordinary bank-notes and cheques. The goods promised in these—gold coins—have to be handed over the counter at once, though it is just as impossible to carry this out, if demanded by all creditors, as it is for the tailor to supply at once a suit ordered to measure.

I have two reasons for my advice to stop the issue of the notes, and to confine ourselves to the cheque to order, as recommended by John Armsden in *Value*.

1. The company ought not to rely on the interest demanded from debtors as a revenue to pay current expenses. Our fight must be against interest, and we ought to prove from the beginning that a credit given for exchange paper can be supplied interest free. The revenue necessary to pay expenses ought to be derived from a commission on the turnover, as in Owen's labour exchanges, though a much lower percentage than his— $8\frac{1}{2}\%$, a penny for each shilling—could be demanded. Now, it is impossible to control the turnover of members where the goods are not sold in the store of the company, but in the member's place of business, if the payment is made by means of our notes to bearer. Only when the payment is made with cheques, not transferable, which the member who receives them has to bank, can we control the turnover. Of course, the bank must insist on having the name to whose order the cheque is made out filled in in the same handwriting as the rest of the cheque, to avoid the leaving open of such name, so as to change it into a paper on bearer for the purpose of saving commissions.

2. In the commencement of a new scheme like this confidence is all, and cheques are more likely to inspire it, being drawn by somebody usually known to the receiver, though the guarantee they give is not greater than that given by the notes to bearer. Neither of the two forms of exchange paper does anything else than certify on the part of the company that bearer is entitled to receive goods or services from those members liable to supply these goods or services. The understanding is that the owner of the paper has supplied such goods or services to others, or is at any time ready to do so. The company has no capital

beyond its reserve fund to make good any failure of members to come up to their engagements, and it is the members' business to make such rules and to take such precautions in their general meetings, principally by electing a good board of directors, so as to avoid any loss. In case of losses exceeding the income from commissions and the reserve fund, higher commissions would have to be charged to make good the loss. However, it is supposed that—as has proved the case in practical work, even with the discouraging circumstances under which this work was done—though outsiders may force the member into liquidation for cash debts, the Exchange Company itself never will have to resort to such extremities. For every hundred men who have to suspend payment because a certain yellow metal is not obtainable, not one will refuse to supply goods or services to the value of his debt. The very fact that there is not enough demand for these goods and services is responsible for the activity of our bankruptcy court.

The main condition of success is a general participation of producers of all kinds, and it was principally because New Zealand can produce every necessary of life required that I had chosen this country. Where food and raw materials must come from other countries, or where the landlord's rent payable in cash absorbs a considerable part of the produce, as in England, exchange banks have to meet great difficulties until the international exchange is established on this basis. In New Zealand, though the interest payable to the mortgagee is a great drawback, there are still enough farmers ready and able to accept exchange paper for their produce. They purchase those goods and services obtainable for it, settling other debts by cash sales. There never has been any difficulty in obtaining traders as members where we could provide them producers in their line who accepted the paper from them. The manufacturers will come in if they can get their raw materials, and if their workers accept the notes.

I extract from the catechism I wrote under the title, "Business without Gold ; how to do it," what I said in regard to the wage workers who want to join.

"Wage Workers and the Exchange

"Question. Your Exchange may, perhaps, increase the income of the employers, but how can it benefit the wage worker? I can understand why he favours the American Labour Exchange, an institution in which, if he finds no employment, he can directly sell something he produces, and make himself paid by the produce of other workers; but in which way is your system to help him?

"Answer. Certainly the American plan is more transparent to the worker, though I cannot understand how it can benefit the great mass of the workers, who do not see their way to producing on their own account any goods for sale, but have nothing else before them than to work on wages for an employer if they find one. You certainly must see that De Bernardi's combination of storekeeping with exchange banking has fastened a heavy clog on the system which makes it almost unfit for a wider application. Ours is free from this incubus, and by interfering as little as possible with the existing business systems, by adapting itself to the present machinery, it has the path to an easy and speedy victory open before it. What should a New Zealand wage worker bring into the Labour Exchange if we adopted the American system? A few shoemakers might bring shoes, but even they would not find any leather in the shop, because tanning needs too much capital to be undertaken by workers who have nothing but their hands. We are past the primitive methods of production, with free access to land, in which such a system might have directly benefited any worker. To do any real good we must adapt ourselves to the complicated systems of the nineteenth century, or we are doomed to failure, as the American Labour Exchanges finally will be if they do not evolve to our system.

"Under existing circumstances, I can very well understand many things I do not approve of. I can quite see why union men try to limit the number of apprentices, why they hate improvements in machinery, why they preach the 'Ca' canny' principle—the policy of doing as little work as possible—but I cannot approve of such things, because they are merely the actions of a man who tries to save himself by striding over

the shoulders of other victims. The fight against machines and the 'Ca'-Canny' principle is victimising the employer; that against apprentices hurts the growing generation. Why not leave aside these useless skirmishes? Why not fight together the battle against the common enemy? There can be no doubt that the first stroke in that battle must be the overthrow of our antiquated currency system. If the workers help by joining our Exchange Bank, victory will be much quicker attained.

"Q. But how can they help? Our Truck Laws do not allow payments in anything but legal tender money, and it seems to me the wage workers cannot join the movement before the legal tender stage is attained for the new currency, an attainment which their votes might hasten. I think this is the only way in which they can further the movement. How can they join it while gold is the only legal tender?"

"A. Nothing in the law prohibits their purchasing from their employers exchange paper after they have received their wage in legal tender. The employers can well afford to make it worth their while by giving them a bonus in such a case.

"Q. I think it would not be difficult to get round the present law in this way, but getting round any law is rather distasteful to me.

"A. So it is to me, but do not forget that the Truck Acts were made for an entirely different purpose. Their object was to prevent employers from forcing their working-men to buy at certain places, mostly in shops kept by the employer, who thus made an illicit profit, who reduced with one hand the wages he had just paid with another.

"Q. Well, are you not doing the same thing? You acknowledge that the employer obtains an additional turnover through the new money, on which he makes his profit; and if part of this paper can only be accepted in case he can pass it on to his wage workers, he has made an extra profit out of them, as in the other case.

"A. Yes; and unless he lets them have their share of this extra profit, he would hardly act fairly; but on looking more closely, you will find the employer can make a stronger case than you think. He can honestly tell his workers that his acceptance of this money procures him the power of giving them a regular paying employment, which, under the present

system, becomes more and more problematical; he can tell them that if he keeps apart from the Exchange circle, and even if he does not accept its money to the fullest extent of his ability, business will gradually leave him altogether. He can show them how this new money forces customers to buy local produce who otherwise would buy imported goods. Under such conditions, I would not blame employers who gradually pay off those employees who do not call for a certain proportion of Exchange money, as only through their accepting this money the business can find employment for them. The time will soon come when the wage workers will be the best propagandists of the new movement. When one of them, who is a member of our Society, looks for a new place, he will be preferred to any other applicant; will find employment where others will be turned away, even if the employer never heard of our institution.

“Q. How do you make that out?”

“A. Let me suppose you to be a shoe manufacturer, totally unacquainted with our institution, and me a wage worker out of place, but a member. I come to you and want work, and the following conversation ensues:—You: ‘Have no work; sent off already several applicants to-day.’ I: ‘Yes, because they wanted money from you; I do not.’ ‘No money! You do not mean to say you work for nothing?’ ‘Certainly not, but I take shoes in payment.’ ‘What can you do with them? You cannot open a shoe shop, and besides, the Truck Law does not allow me to pay you anything else but money.’ ‘I know. I mean that I at once repay you your money, and get an acknowledgment from you that you will furnish your goods at regular prices for the amount I paid you to anybody who comes with my authorisation.’ ‘I would be perfectly willing to do that, and to give you permanent employment on such terms, even if you want to keep some of the money, because the only reason I could not employ you before was that I had no money, but plenty of boots and shoes. Yet I cannot see how you can manage to sell your order for boots and shoes.’

“And now I explain to you the organisation of our Exchange, which enables me to pay for all I want with such an order; this order you give me in the form of notes or cheques of the Exchange, of which you become a member, accepting a credit

on the force of your stock and the new goods produced by my work.

"But all this is not the only advantage given by the Exchange to the workers if they come in in sufficient numbers. The reserve fund, which will grow from year to year, could supply them with the capital they may need to set up as independent producers. Their co-operative organisations may supply the necessary security, and the progress brought about by the Exchange system would put out of their way the most serious obstacle to their success, the difficulty of disposing of their produce. In a market in which only the skilful and experienced business men succeed in making headway in the battle for the scanty gold stock, the co-operating workers have a poor chance. Their commercial management is rarely as efficient as that of the private capitalist. After the new currency has rendered it easy for any producer to sell his goods, co-operative production will thrive."

Storekeeping added

The distinction I have made between De Bernardi's system and ours has ceased to exist. I understand the De Bernardi labour cheques are also circulating among members, as a means of exchange between themselves, while in New Zealand it is intended to add storekeeping to the present system. *Mr. J. Bruce Wallace's Brotherhood Movement* has likewise adopted both systems. That Owen also combined the two methods has already been shown (p. 407).

Proudhon, the French Pioneer of Exchange Banks,

likewise united the two systems. This is best evidenced in the Memorial which he addressed in the year 1855 to the Prince Napoleon in regard to the use to be made of the Palais d'Industrie. He wanted to establish there a permanent exhibition of all producers of the country where orders could be accepted (and, I suppose, for certain not very voluminous goods, as far as stock went, also executed on the spot), the payment to be made in Exchange paper issued by the

organisation.¹ It is a great pity that this "Société de l'Éposition Perpétuelle," his best work, is so little known. Nothing else the great genius has produced shows him so little of a dreamer and so much of a practical man of business. In a masterly way he sketches the immense influence which such an institution would have on production and circulation, on interest and rent, on the waste caused by superfluous middlemen, and on the general distribution of wealth. Nothing is impracticable in the grand project, not even the enthusiasm of the author, who never for one moment flattered himself with the vain hope that the dreamer on France's throne would really accept his proposal. If the moment when the founder of the Buonaparte dynasty dismissed Fulton with a jest, addressed to his surroundings as to the impracticable project-maker, decided his fate by depriving him of the only chance he had of conquering England, we may say that the neglect of Proudhon's grand idea deprived the second Emperor for ever of the power to make France the first commercial nation in the world, and to establish her national wealth on a solid basis.

Proudhon's agitation had at least one practical result: the establishment of

Bonnard's Exchange Bank

at Marseilles in 1849 (Proudhon had published his "Banque d'Échange" in 1848). In 1853, the business moved over to Paris, where, according to Professor Karl Knies, in *Credit*, the turn-over from 1854-55 amounted to 45 million francs. It still exists under the name of "Comptoir Central de Crédit," J. Naud & Co. (Naud was Bonnard's son-in-law). It not only exists, but prospers. Its yearly publications show a very large list of firms who accept the bank's exchange paper. This consists of engagements signed by the members who accepted a credit from the bank to supply a certain amount of their goods or services. The credit is, of course, only given in the shape of a loan to the

¹ I had the same plan for New Zealand. Want of support prevented me from erecting the permanent exhibition of our members, but an experiment I made with a commercial traveller for the company showed how much easier it is to obtain orders where no cash and only the engagement to supply goods in payment is demanded.

members consisting in the engagement of some other member whose goods or services the borrower needs. A commission from 3% to 5% is taken by the company, which is not co-operative, but a limited company merely working for dividends; but thus proving to co-operators how important is the mine of wealth they have left untouched hitherto.

The Guernsey Market Hall and Similar Experiments

As I am giving here some historical antecedents of exchange banking, I do not wish to leave unmentioned the well-known experiment made by *Governor Brock of Guernsey*, who, instead of borrowing money to build a market hall, built it by issuing a kind of exchange notes, scrips which were to be taken in payment for stall rents. These scrips passed as money in the island until they were redeemed in the way mentioned. This method of creating public works has been repeatedly copied; for instance, in the socialist settlement of Topolobampo, Sinaloa, Mexico, where an irrigation ditch about seven miles long, and worth \$100,000, was mostly constructed in this way by the issue of irrigation scrip redeemable by water rights accorded to scrip holders. Another social settlement, Fairhope, in Alabama, built a wharf on this system, issuing scrip accepted for wharfage. It has been repeatedly proposed to build New Zealand public works on the same plan; but I know of no example where it has been carried out, unless it be a concert hall built at Nelson in a similar way. However, my informant, Mr. William Rout of Cambridge, N.Z., has not told me whether the scrip passed as currency, as it did in the other cases.

Co-operation and Exchange Banking

When I reflected just now on the strange fact that up to this day co-operation has left untouched the important accession of strength which it might receive from the adoption of exchange banking, I must not forget to mention that I agitated for over a year among the co-operative societies of Great Britain, after a similar attempt made in Switzerland for the introduction of the system. My first pamphlet, written for Switzerland in 1895, was followed

by "The Real History of Money Island," written in the same year, and published in 1896.

The following letter, addressed from New Zealand to the chairmen of the British Co-operative Wholesales, saves me the trouble to say more on the subject.

"Open Letter to the Chairmen of the Co-operative Wholesale Societies of England and Scotland"

"GENTLEMEN,—Excuse me if I write you a public letter through my *Pioneer of Social Reform* and the *Co-operative News*, but I know you are the presidents of two economic republics, and can do nothing without the consent of the members. The letter, therefore, is as much addressed to these members as to you. Every single one of them ought to feel it his duty to take, with you, the initiative in the work I ask you to do—a work which, if accomplished, would do more for co-operation and its extension than anything done since the days of Rochdale.

"One part of the plan is not new to you. My book, 'The Real History of Money Island,' my articles in the *Co-operative News* and the Annual of the Wholesale Societies of 1898, as well as my addresses delivered to many of the co-operative societies during 1896 and '97, have made you sufficiently familiar with my co-operative currency scheme to relieve me from the necessity of giving here more than a mere outline before I proceed farther, and develop my new proposal.

"The first step I proposed was the issue of a co-operative currency through the Wholesale Societies, differing from the ordinary currency in not consisting of a special commodity: gold; or in not being, like the bank-note or cheque, an engagement to deliver this gold on demand, but an engagement to directly supply the things for the obtaining of which the present currency, after all, is finally used. Or, let us rather say, ought to be used, because exactly the fact that in many cases it is not so used, but is employed as an instrument for the exaction of usury, is responsible for most of the evils we are suffering from.

"The notes issued by the Exchange Bank department of the Wholesales would not promise to deliver gold to bearer—in

which case you would transgress the law against the issue of bank-notes—but to supply goods to bearer at cash prices. Such notes can be issued up to forty shillings without paying stamp duty.¹ If you follow my example here, you would issue them to the amount of one pound, ten shillings, half a crown, one shilling, and sixpence. I send you one of my shilling and one of my sixpence notes. The text is the same for all, only the amounts and the colours of the paper differ, so as to easily distinguish them from each other. These notes would be made redeemable in any one of the different co-operative stores of the kingdom. The stores would accept them readily, as they could pay for their purchases from the Wholesales with them. Those stores which are not yet members of the Wholesales would here find a strong inducement to come in, because the acceptance of the notes would mean additional business brought to their doors.

“To a population of seven million, the members of the co-operative societies and their families, this currency, to a certain extent, would be as good as the present money, and they would be ready to accept as much of it in payment as they could pass on. They would consequently be ready to buy these notes from their employers for the cash received for wages, the only way in which, for the time being, the Truck Acts, made for an entirely different purpose, permit the transaction. The employers being able to pass on the paper to their employees, and also to buy with it from the stores any goods they require for their own use, would gladly accept the paper from the Wholesales for at least part of the goods supplied to these. Manufacturers do anything in their power to obtain custom, and the Wholesales are large buyers and good payers, to whom everybody tries to sell.

“It will be readily seen how an entirely new class of members, or anyhow customers, would thus be recruited for the co-operative societies. Not only the manufacturers and farmers who accepted the notes for their goods would come in, but also those of their employees who are not already members. And not only these, but also many of the purveyors of these manu-

¹ There is no stamp duty at all on such paper in New Zealand, and decisions of the American Treasury department given to labour exchanges confirm the same fact for the United States.

facturers, farmers, and employees, who are just as anxious to obtain orders, etc. All these would buy their supplies in the co-operative stores, if obtainable, and the stores would gradually extend their lines until anything could be obtained from them at regular prices. All in the circle could even afford to pay a little more for the goods they buy with the new currency, because every such purchase means a corresponding sale of their own wares. What store would not rather pay 5 per cent. more for a merchandise if the purveyor agrees to take in payment goods on which 15 per cent. profit is made? In the same way, all who sell to the Wholesales for Exchange notes could afford to give better terms to those who accept the paper from them, to their own purveyors and wage workers. The latter would obtain the additional advantage of a greater security of their positions. Their acceptance of the notes would ensure to the employer a corresponding custom, and consequently enable him to keep them in preference when other employees are dismissed because cash business is slack.

"In this way, the co-operative circle would rapidly increase until it would gradually monopolise the greater part of the home trade, until most producers and most consumers of the kingdom would form part of it. The amounts of the new currency thus kept floating would then exceed that of all the present banks of the country.

"The interest saved by the co-operative societies through the use of their own money and the profits made through the additional sales brought about by the new currency need not be paid out in dividends. The new members thus brought in do not come to get dividends, but because their acceptance of the paper procures them employment or custom. The extra profits thus made could be used for the development of co-operation, for its redemption from dividend grabbing and the final establishment of a *Co-operative Commonwealth*, in which anybody willing to work would find paying employment of the sort best adapted to his capacities.

"Then co-operation would be looked at in a different light by the present private trader, who now must be its enemy as long as it only deprives him of a living, without, at the same time, offering him the chance of a better one, which the new system would do.

"This was the plan advocated by me during the years 1896 and 1897. I then suspended my work in England, and went to the colonies to meet the only sound argument of my antagonists. England gets most of its raw materials and food-stuffs from abroad, and it was objected that unless the Wholesales could buy this produce with the new co-operative money its circulation would meet great difficulties. Though I felt certain that in case of need enough produce could be raised at home for the paper to ensure its success, yet I fully realised the validity of the objection, and I opened my propaganda in a country able to supply at once most of the produce which England needs, where at the same time a genial climate and an open-minded people are met with: New Zealand, the pearl of the Pacific.

"The result of these two years' work as the organiser and president of a Pioneer Company for the new currency reform, the *New Zealand Commercial Exchange Company, Ltd.*, has procured me the absolute certainty that our farmers are ripe for co-operation with you on the basis of the reform here proposed. The new paper issued by you would soon be accepted by New Zealand farmers for their produce, provided you open a branch where all kinds of English manufactures could be obtained; and as you could buy at home with your Exchange notes as many of these manufactures as you want the moment you can supply raw materials and food-stuffs for the notes, the final success of the reform would thus be ensured.

"Our farmers are not like their Dutch and Danish colleagues; they demand no cash from you for their butter, to spend in German manufactures. They are ready to take English products in payment. Their acceptance of the new co-operative currency would ensure this, and as you would not cut down prices when the profit made on the exported goods allows you to be liberal, you could gradually obtain most of our produce. It would cost you very little to send here a delegate to verify my statements, to whom I should give all assistance I can.

"I hope you are better prepared now to listen to my proposals than you were three years ago. The moment could not be more propitious, for the cable flashes us news of rates of discount almost unknown to the present generation, and of a possibly impending financial crisis. A financial crisis in the richest country of the world! Does England possess less

wealth than she did a little while ago? Is there less cotton, less wool, less wheat, coal, iron, etc., in stock? Have the 2,500 million pounds of debts due to England by the whole world been wiped off suddenly? No; nothing has changed but the available stock of one of the most useless commodities in the world, that of a yellow metal which we have made our fetish; though even the work we have made it do for thousands of years has become obsolete since 99 per cent. of the world's business is not done by the means of gold, but by that of paper promises to pay gold. Only one step remains to be taken: that of making the paper promises call directly for the things which, after all, we want to get for the gold.

"You, the great co-operative army, have the power to do the work, to do it effectively, and to do it at once. Will my call still remain unheeded? Will Lincoln, led by Mr. M'Innis, once most interested in my work, remain passive? Will the Co-operative Union's active secretary, Mr. J. G. Gray; Mr. Vivian, the organiser of labour co-partnerships; my old friends, Jacob G. Holyoake, the veteran of co-operation, and Alfred Hood, its valiant pen; Mr. Bamford, its active editor; Messrs. E. O. Greening, J. Bruce Wallace, William Campbell, Richard Binns, and so many others whom I met while I fought my battles for the great reform, will they take up the banner and help you, the two chiefs of the practical work, to carry through the work? Will you who received me so kindly at the time take it up now? Hoping to hear from you soon, I remain, yours truly,

"MICHAEL FLÜRSCHHEIM.

"Wellington, N.Z., *January, 1900.*"

The Future of Co-operation

In "The Real History of Money Island" I have tried to draw a picture of the great future which co-operation would reserve for itself in following some such plan, in rising from a mere dividend-grabbing concern, hard at work in reducing the cost of its members' purchases, and entirely neglecting the fight against employment-destroying and wage-reducing tendencies, mostly due to our land and currency systems. The new money might give

them the power to fight our legal tender money and its terrible, death-dealing effects, while the profits thus made could help in the battle against landlordism. The workers might gradually acquire enough land for their own use and for the supply of their food and raw materials, either in England or in the colonies, and thus reduce the price of the remaining land still in the hands of the landlords. Mr. E. Howard's proposals—of which I shall presently say a few words—might supply further help in this direction.

The trades union would soon find that labour co-partnerships, with the wholesales as distributive centres, would, through the use of the new money, reach such an extension that the workers no longer need to direct their efforts and means against the employers in wasteful strikes, but would more profitably use them in creating a co-operative commonwealth of producers consuming their own goods. Yearly congresses could easily adjust prices and any points of difference, the congress of the trades unions representing the producers, the congress of the co-operative stores the consumers. Their agreement would not be doubtful, because the same parties are represented in both meetings. As producers all desire to obtain higher prices, as consumers all wish to buy as cheap as possible, and this two-sided interest of each must prompt him to exercise fairness in both capacities. After taking over one department of public work after another, they could finally act as the parliament of the nation; the Co-operative Commonwealth and the political State at last becoming one. Thus perhaps will be realised John Stuart Mill's prophecy, made in 1865, in his "Political Economy":

"Eventually, and perhaps in a less remote future than may be supposed, we may, through the co-operative principle, see our way to a change in society, which would combine the freedom and independence of the individual with the moral, intellectual, and economical advantages of aggregate production; and which, without violence or spoliation, or even any sudden disturbance of existing habits and expectations, would realise, at least in the industrial department, the best aspirations of the democratic spirit by putting an end to the division of society into the industrious and the idle, and effacing all social

distinctions but those fairly earned by personal services and exertions."

Co-operation has a great future in New Zealand, and the following article from the *Pioneer of Social Reform* gives a further illustration of the help it might derive from Exchange banking. I make a few corrections in the text, as I am doing in other quotations from my own writings.

"A Co-operative Bacon Factory on Exchange Bank Principles

"More subscriptions are just now demanded for the Co-operative Bacon Factory at Woodville, more capital being required to purchase the full amount of hogs which the institution can cure. Naturally, it pays better to keep the establishment going at full speed, and so it seems a matter of course that more money is needed for the purpose. At first sight, every business man must approve of the proceedings; and yet, when we investigate them carefully, we shall see how unnatural the whole thing really is, and how little the shareholders of this Co-operative Society are possessed of the co-operative spirit, the spirit of mutuality. If they really appealed to this spirit they would find at once how unnecessary it is for them to court new subscriptions for the purpose. Would there be any idea of raising more money if the farmers who supply the pigs required the bacon for their own use? Certainly not. In this case, the farmers would take the bacon in payment for their pigs, and the whole transaction would be reduced to a simple booking operation. There would be universal laughter if the Bacon Factory tried to raise cash to pay the farmers for the pigs, and then demanded the farmer's money for the bacon.

"Does the case change when one more member is added to the circle, when the storekeeper takes the bacon from the farmer or from the factory, and the farmer takes his groceries from the store? It would be just as ridiculous for any of the parties to borrow money for the transaction, for there might simply be two separate barter, the one between the farmer and the factory of pig for bacon, and the other between the farmer and the store of bacon for groceries. Or if the process is

simplified by the storekeeper's taking the bacon direct from the factory, the farmer might pay for his groceries by means of an order on the factory for the amount due to him for the pigs, and the storekeeper pays his bill at the factory with the farmer's order. This way of doing business, however, becomes a little less easy when another member is added to the circle. Let us suppose, for instance, that a wholesale grocer X, at Wellington, is the buyer of the bacon. In this case, X might give to the factory an order on the storekeeper Y, who buys his groceries from X. Y pays the order by one on the farmer, his customer, and the factory passes on the order to the farmer to pay for his pigs. Still no money is needed, but already certain difficulties might occur. Principally, there may come in more links in the chain of trade between the parties; so that finally the buying by orders of this kind becomes absolutely impracticable. It is for this purpose that the Co-operative Society called the New Zealand Commercial Exchange Co., Ltd., has been founded. It is nothing but a clearing-house between its members, under their supervision, exercised by a board of their own selection—a selection made on the most democratic system: the Hare proportional vote. Let us see now how the parties would deal with each other under this system. To begin with, the factory would become a member of our company, and would make use of our Exchange notes to buy pigs with. It would find no difficulty in placing the notes among the farmers for pigs, provided it can satisfy the farmers that the country stores will accept the paper. This is easily accomplished if one single store is won over; for, in that case, the others are bound to follow suit if they do not wish to lose the custom of the farmers. The stores only want the certainty that they can pass on the paper in their turn, and this certainty will be given them by the wholesale grocer who is ready to accept the paper for groceries; because he purchases the bacon from the factory, and can pay it with the paper, which the bacon factory can either pay back to us, or, by passing it on again to the farmers for pigs, begin the same circle over again.

“Every one of the four parties here concerned has benefitted by the operation. The factory has obtained cheap money, and a customer who will do all in his power to sell the co-operative bacon, because the more he sells the more groceries can he sell

to the country stores, who otherwise might give their custom to others. The storekeepers likewise are sure of obtaining a custom which, in many cases, would have gone elsewhere. The farmers do well, because they have a certain sale for their pigs at remunerative prices, for there will be no cutting in the circle as in cash business. The reason for this is a very simple one. Cash can only be obtained in the world's market, and this market suffers from an excess of supply over demand with cutting of prices as a natural result. This disproportion between supply and demand arises from the fact that there are more sellers of goods than buyers provided with our existing money, consisting of a scarce commodity. This changes entirely when this money is eliminated, and when goods are bought with goods, as in our Exchange circle.

"There can be no over-production where sales are mere exchanges, where the influence exercised by the scarcity of the money material is eliminated. Every purchaser with our paper necessarily obtains a customer paying with the paper. He is certain of making a profit on a sale, and therefore can afford to pay well for what he buys. There is no need of cutting in such a case; 'Live and let live' is the motto of all members of the circle.

"Thus our Exchange circle presents quite a different spectacle from that offered now in the ordinary market where gold forms the means of payment. The gold stock of the world is very limited, amounting in its totality to only 800 million pounds sterling, of which New Zealand has a rather disproportionately large share of 3 million pounds, or 4 pounds a head, while the average for the 400 million people in the world who use gold money is only 2 pounds. For all that, we know very well that our 3 millions would be woefully insufficient if the creditors took it into their mind to demand the gold due to them, as they sometimes do in times of financial difficulties. In such a case, perhaps, one-third of the 90 million public and private debts of the country, or ten times as much gold as we possess, would have to be paid at once, or within a very short period. As financial panics generally spread over the whole world, other countries would not be better off, and thus there would be no chance either of obtaining the gold from abroad. Under

such conditions, the best security obtained by the creditor has often proved inadequate; and it is no wonder that money banks not only are very particular about their securities, but also charge a very high rate of interest. Part of this interest they have to pay themselves to obtain the gold from others, and a part has to supply the risk premium, which must be very high under such conditions; only a fraction represents profit.

"Is it a wonder that in face of such a growing difficulty of obtaining money—growing because compound interest all the time increases the excess of gold debts over gold stock—prices are forced down and sales become more difficult? Cheap money is the only remedy, and our present money must become dearer all the time. Organisations on the basis of the New Zealand Commercial Exchange Co., Ltd., can always supply cheap money, because they are absolutely independent of the gold market. All marketable commodities, without any exception, not merely one only, are their money.

"In the case here described, bacon is practically money, and bacon is the thing demanded by the Exchange Bank for the repayment of its loan. Bacon can be produced in any quantity. If the world's debts were payable in bacon they would soon be paid off. Pig-raising and bacon manufacture would increase more than a thousand-fold. This production is practically unlimited; that of gold is very limited. For this reason, we do not run the risk incurred by money banks who give credits in gold money. We know that the bacon factory can repay its debts in bacon within a reasonable time, and its assets thus form an absolute guarantee. They would not if gold were borrowed, because the best assets cannot ensure an impossibility, the payment of a non-existing thing. Thus we can afford to charge only a nominal rate for our loan; 1 per cent. would amply pay risks and expenses.

"Before we conclude, we wish to meet one objection generally made. 'It is evident,' people say, 'that the farmers can use the new money to pay for their groceries and other goods supplied by the stores. We are even willing to concede that they can buy with it any other goods they require from the storekeepers, as long as these can obtain groceries for the paper. Nor will there be any difficulty of paying other

purveyors in this way—smith, barber, cart-builder, harness-maker, etc.—because these in their turn could pay with it their own debts at the stores. But what is the farmer to do who owes an overdraft to one of the banks, or who wants to pay rent or taxes?

“Our simple reply is that we do not pretend to at once supply a cure for all the follies of the past. All we can do for the present is to supply a cheap money for the purposes here indicated, which money is needed anyhow, and if we do not supply it, will have to be borrowed, thus further swelling the present debts. In any case, the indebted farmers need groceries, clothing, fencing-wire, etc., and they have to pay for them.

“We supply them this part of their needs, and thus set free a corresponding amount of cash money otherwise required for the purpose. They will have to find the money for the banks, landlords, or mortgagees as they are doing now, *i.e.*, by selling produce for cash. All we ask of them, and in their own interest, is to accept Exchange money for their pigs, or anyhow, for as many of them as are required for the supply of necessities of life now bought with cash money.

“The great advantage they reap in this way, independent of obtaining a cheap credit and better prices, will be the gradual extension of a system which, once generally accepted, will, by importing fresh blood into the social body, gradually bring about a hitherto unknown prosperity all round, and thus will be also the means of freeing them from those liabilities which at present the new currency cannot reach.

“The advantage reaped by the new bacon factory from the help obtained through our system would infuse new life-blood into our Company, which is in full working order, and only needs the people’s help to become an immense success all round. Co-operators, help yourself, and God will help you! Do not complain of the scarcity of money when you can create your own co-operative money! Don’t go round soliciting cash subscriptions when the money you need is ready to your hands!”

Relation between Exchange and State Currency

Exchange currency and a State currency which expands with production, "monetises labour," to use De Bernardi's expression. How nearly both are related is explained in the following correspondence from the *Pioneer of Social Reform* (February, 1900):

"Editor of *Pioneer of Social Reform*.

"SIR,—I cannot understand how you can expect the same effect from State-issued paper as from your Exchange notes. The one is issued, as you suggest, for public works, or to banks or other borrowers supplying best security; whereas the other is lent to any honest producer or dealer who can give sufficient security that he will supply goods and services for the paper to anyone presenting it. I can very well see how your Exchange bank can render the man of the people independent of the money-lender, but I cannot see how the issue of State notes could effect the same purpose. Will you explain?
C. R.

"[ANSWER.—Your question shows that you do not grasp the fact that Exchange notes and inconvertible paper money are lent on exactly the same principles. In both cases the borrower has to supply security that he will repay the loan. In both cases this security consists in something which the lender can make use of to pay himself. In both cases the money which has been borrowed has to be repaid. In both cases this money is accepted by the borrower for the goods and services he has to sell, and the value of the money depends on the fact that these goods and services are forthcoming on the presentation of the paper. In both cases the expectation that the standard of value of the money will not change, or, in other words, that the prices demanded for the goods and services will not vary, rests on the assumption that not more paper money is issued than there are goods and services held ready for it, and this is effected in both cases by obtaining sufficient security from the borrower of the paper that these goods and

services, or, anyhow, something which will procure them at once, are ready at any time.

"Your question, implies doubt whether the issue of State notes for public works is fulfilling these conditions. In investigating the point, we shall find that it is immaterial for which purpose the notes were issued, provided the quantity in circulation does not exceed the demands of the market, which means that there are not more notes in circulation than there are goods and services held ready for them. The test for this is the price of these commodities and services. As long as this price does not rise beyond a certain point, it is shown that the healthy demand for money has not been overstepped. In another article of this number we show how it is possible at any time to ascertain the correct relation between the quantity of goods and of money, and to keep this relation steady.

"This relation may be kept up even where the money is issued to pay for unproductive expenses such as armaments and wars, but in such cases the element of distrust reduces the quantity of money which can be kept in circulation through the eagerness of money-holders to pass off what they do not require in the immediate future. They will pay out or invest their money as fast as it comes in. On the other hand, the very investment of the money for productive purposes—such as railways, for instance—increases the productive power of the people, and thus the quantity of money required, as well as the free deposits, the capital at the free service of the people. Goods become sufficient security for money loans where they are readily saleable at paying prices.

"Neither State nor Exchange banks redeem their notes. These are merely orders to the members of the community in the one, the society in the other case, to deliver goods or services to bearer for the account of the issuing party, with the privilege of using the orders in the same manner. In both cases the debts of members are practically payable in all kinds of goods and services, and no more in only one special scarce commodity of which not enough exists to pay more than a minute fraction of the debts."

Another article I wrote in the same periodical still better illustrates the intimate connection between the two currencies :

“The Great Calamity on Robinson’s Island

“ Things were getting rather turbulent on Robinson’s Island. It was not for the first time. There had been a revolution before when the people would no longer put up with Robinson’s land monopoly. He had owned the whole island, and only those who obtained land from his lordship could live on the island, and could only live on what Robinson was gracious enough to leave them of the fruits of their labour, which was not much. But some foreign agitators had managed to get a foothold in the island, and their teachings opened the people’s eyes. They began to see that they had as much right to the land as Robinson ; and that Robinson was only one weak man, whereas they, the islanders, numbered thousands of strong men ; that they only had to *will*, and Robinson must obey. So they willed common land ownership, and the land was owned in common. It was taken without compensation, but the people were generous enough to pay Robinson for improvements, although they themselves had made the improvements. They consented to give him bonds to the full amount of these improvements, on which they agreed to pay a moderate interest up to the time when they could redeem them. This would not have taken very long, because the inventive spirit of the islanders had immensely multiplied their productive power, and they were enabled to put aside in a few years wealth enough to pay the whole of their debt to Robinson, capital as well as interest.

“ Sly old Robinson foresaw that this state of affairs would not at all suit him. It would have thrown upon his hands immense stores of commodities which he did not need, and which he could not dispose of unless he took in exchange other commodities equally useless to him. He could only eat five meals a-day ; any victuals in excess would soon have been spoiled. He could not wear more than one suit of clothes or one pair of boots at a time, and if his stock of clothing was too large, the moths would eat it. He might have left the commodities in possession of his debtors until he needed them, some time during

the balance of his life or the life of his children ; but he wanted interest, and the people were not fools enough to pay it, having no need of the goods. For they had free access to the land, and so their labour easily created all the other means of production necessary to supply plenty of everything.

"But Robinson was a sly old humbug who knew a thing or two ; and so, long before the revolution which he foresaw, he had made a law that debts could not be paid in *any* product of labour, but only in *one* scarce product, a yellow pebble, called *gold*. While he owned the island he had made the people bring to him all such pebbles found by them, and at the time of the revolution he possessed almost all the yellow pebbles on the island. When improvement bonds were issued, capital and interest were made payable in gold. To obtain gold, people had to sell the products of labour. Robinson was the only gold owner, and he was, besides, over-supplied with goods of all kinds. This resulted in a mad competition for Robinson's gold, through which prices and wages went down most fearfully. The more these went down, the more goods and labour days were needed to pay Robinson's dues ; and as Robinson's wants were limited, the excess of supply over demand increased all the time. I do not mean real demand, for the people had an unsatisfied though ineffective demand for all these over-produced goods ; but they had no gold with which to pay for them. Most of the gold they did receive had to be paid again to Robinson, who spent less and less of it. The surplus he lent to those islanders who could give him the best security. The interest on these new debts again went to swell Robinson's income, and consequently the unconsumed part of it. This meant that an increasing gold debt had to be paid by the people, who, in order to obtain the gold, tried to sell their products in a market in which the great gold monopolist spent a continually diminishing fraction of his gold income, and in which the people were less and less able to make up for the deficit by their own purchases, because more and more of the gold they obtained for their sales to Robinson had to be paid back to him, and so could not be spent on purchases. A terrible struggle ensued. The people did their best to save gold by improving their tools and processes of production, but every such improvement only made matters worse. As it

cheapened prices and increased the savings of Robinson, it narrowed the market and rendered the chances of employment more precarious.

"There, briefly, we have the cause of the turbulence on Robinson's Island. Socialistic and anarchistic doctrines were preached everywhere. A solution which did not overthrow the whole system of ownership, production, and distribution seemed out of the question. The truth came to nobody that the whole mischief was due to the folly of making all debts payable in one scarce product, a product which one man could monopolise, instead of in all products which no individual could corner, because the whole people could coin such money by their own labour. Technical progress, instead of narrowing the market (because the production of the one scarce money commodity kept more and more behind the production of all other commodities) would in this case have increased the coinage of the people's money. But how could the islanders have managed to escape the inconveniences of primitive barter? How could they have made use of the immense advantages connected with the use of money?

"The best way to answer these questions is to tell you what really happened. A stranger landed one day, who had heard a good deal about the great fertility of this island and its wonderful climate, and he had decided to spend there the balance of his life if things looked really as well as he had been told. You may imagine his astonishment when he found out the actual state of affairs. At first he was afraid he had got into a lunatic asylum, but gradually he saw what was the matter. He called a public meeting, and gave the following address:

"Friends, I had heard of your wonderful island, and I came to it thinking that I might be able to conclude my days among a happy and contented people, for this alone can make existence really enjoyable. I had fled from countries where most of the men were under arms part of their lives watching for the moment when they could fall upon their fellow-men and kill them, and where wealth is so unequally distributed that social revolution is rife. Dim reports had reached me, not only about your wonderful climate, but also about the victory of democracy which had gained the land for the people, besides obtaining equal rights for all men and women. You may imagine how

astonished I was when I came here and found things just as bad as—in some respects, even worse than—I had left them in the Old Country. Under such conditions, I had better leave again by the first boat; but before I do so, I would like to find out the cause of your misery, and discuss with you the possible way out of it. Will anyone give me his views about the sad circumstances I find you in?’

“An old man got up, and in mournful tones replied: ‘The case is very simple, stranger; we suffer from an awful over-production.’

“‘Over-production?’ the stranger asked, half doubting if he had heard aright. ‘Over-production? Why, man alive, I never observed worse destitution in my life than some cases I have seen here, and hardly ever such a deficiency in many things which make life worth living, such as many luxuries, especially objects of art. There is not a single man here, except old Robinson, who does not lack many products of all kinds, and you talk to me of over-production!’

“‘Well, you just go and start any business, and then try to get rid of your goods!’ the old man testily answered.

“‘Indeed; what trade are you in yourself, my man?’

“‘I am a shoemaker.’

“‘And you complain of over-production? Why, I have met hundreds to-day who have no shoes, or torn ones; why do you not supply them?’

“‘We have got fools enough of our own,’ grumbled the old man. ‘Why don’t the foreign fools stay where they are, instead of coming here to waste our time with their empty talk.’ And he got up to go.

“‘Won’t you reply to my question before you leave?’ asked the stranger politely.

“The old man turned towards him with an angry growl: ‘I am a poor devil, and cannot afford practising charity. I have to earn my bread by my work. Besides, I am an honest man, and cannot steal my leather. If giving away my boots and shoes is all you have to advise me, I think I was a greater fool to come and listen to you than you are yourself.’

“‘I did not say that you were to give your goods away, and I see no need for it. Some of the shoeless men I met to-day are willing to work for the tanner, in return for the boots you

could furnish them with, so that the tanner could supply you with leather in payment for their work ; and other men, in exchange for shoes, would willingly help the farmer to produce wheat and cattle to provide you and the tanner with food, and the tanner with hides. Why do you all sit idle and complain of over-production ? That is what I cannot understand.'

"The old man did not deign to reply, but, with a look of withering scorn, he left the hall. The speaker appealed to the public, asking them to explain to him by what blunder he had roused the anger and contempt of their fellow-citizen who had just left.

"A young man, with pleasing features, got up, and in a kind tone answered: 'Our friend has become embittered by his troubles. He seems to be under the impression that you were making fun of him when you spoke of his obtaining food and leather through the employment of shoeless people by the tanners and farmers, as if these men could employ workers without money, or as if our friend, the shoemaker, could buy food and leather without first earning money for the purpose.'

"'Oh, that is it ; money !' thoughtfully answered the stranger. 'Money ! I see now. Still, I cannot understand what should prevent a farmer, for instance, from coming to our friend and bringing him a sack of potatoes for a pair of shoes, and why our friend could not get leather for part of these potatoes or for shoes, from the tanner, who could use the shoes and potatoes, or might pay back some of the latter to the farmer for hides. The potatoes would be money in this case, would they not ?'

"'Certainly,' the young man replied, 'but this would be a very clumsy way of doing business when we find even gold too cumbersome in most cases, and when we usually let Robinson keep it in his vault, and take paper from him with which we transact our affairs.'

"'Why not issue the paper for the potatoes, the leather, the hides, the shoes ?' suggested the stranger. And then he went on developing a plan by which the islanders could issue such paper on their joint responsibility, which they would lend to each citizen according to the quantity of goods or services which he could be relied upon to supply for the paper. 'Would not this paper be as good as the paper of Robinson ? Would it not

be even better, because I have heard that Robinson issues a good deal more paper than the gold in his vaults amounts to, whereas the new notes would only be issued where absolute certainty could be obtained that goods or services were ready for the exchange ?'

" 'That would be all right,' replied a ponderous man with a pair of spectacles, who was a councillor, 'but do you not know that we owe an immense debt to Robinson, which is payable in gold only, in more gold than we ever could obtain; and in this way our debt gets larger from year to year, and Robinson holds his claims—which we cannot settle—over us, so that nobody is sure from one day to the next of not being sold out by the sheriff, thus to be deprived of all means of subsistence, of all his tools of production with which he earns his living ?'

" 'To be sure,' said the stranger; 'but why not force Robinson to accept the new paper based on your products and services? Your productive power is so great that you could supply enough of this money in one year to pay off your whole debt to him; but he would not even want it paid back, for he would not know what to do with your products and services all at once. He could not use them in a lifetime, and his children's children would yet have to help in getting all these things off your hands. Of course, you would not pay any interest for them meanwhile, as you could produce them in any quantity for your own wants. You would probably even demand a premium for storage, though you would not store the things, but would use them until they were demanded, when you would produce new ones.'

"Next day old Robinson heard of the meeting, and he became frightened. He at once saw that the secret of his power had been revealed, and he tried hard to counteract the impression which had been made upon the people. The newspapers in his pay wrote flaming articles against these foreign Anarchist teachings, which undermined all confidence and credit in the country. The idea of floating the country with a worthless paper currency, which soon would inflate prices, which would ruin the widows and orphans who had accumulated a modest competency that would speedily be reduced to a fraction by the depreciation of the new currency! The man who counselled

repudiation of honest debts ought to be hanged, because he was little better than a thief. The credit of the country would be destroyed. To this tune it went on, and the politicians—servants of Robinson—took up the strain, and with thundering voices they demanded the expulsion of the scoundrel who had come to undermine good faith and honesty in the island.

"The stranger did not reply to these attacks. He thought that if the seed he had thrown out did not produce any harvest it was worthless, and he had better leave the island for good, to be ruined by usury in the name of honesty and good faith. Fortunately, the islanders were an intelligent and spirited people. Habit had dulled their perceptions in regard to this money problem, because they had been so used to Robinson's gold currency that the possibility of reform had never once entered their minds; but now they saw a way out of all their troubles; they eagerly seized the new idea. New papers were started, and found eager readers, so that the old ones had to change their tone lest they should lose their last subscriber. The old fogies who preached against inflation soon found their match in energetic young men who knew how to reply to their arguments. 'Inflation!' they laughed. 'Inflation; when it is notorious that the productive power of the country is stifled for want of the medium of exchange! Let us first issue enough of the new money to satisfy the wants of the people, and then we shall see. Let us remove the gag which prevents us from going to work with a will, from supplying each other with all the things we need, and all those appliances and machines through which we could increase ten-fold our productive power, and thus satisfy wants we could not otherwise dream of supplying. We shall then see whether the largely increased turnover thus brought about will not keep afloat more than ten times as much money as we now possess without depreciating its value. Repudiation? Yes, certainly, just as Portia repudiated Shylock's claim to the pound of flesh of Antonio. Is it any easier to pay immense sums of gold which do not even exist in the whole world—because the gold debts of the people everywhere are more than twenty times as large as the gold stock—than it was for Antonio to pay the pound of flesh? In fact, it is harder, for the flesh finally could have been paid, though the payment would have killed the debtor. The gold

we owe cannot be paid, however, even if all the debtors are sacrificed. We do not repudiate honest debts, but dishonest bargains against the law of Nature. In fact, Nature herself repudiates them; not we. We are willing to pay every penny of our debt in the only way in which we can pay it—in the products of our labour; but we cannot pay in something which does not exist, and which, even in so far as it is obtainable, cannot be got from those who own it, because their wants in our products are too limited. Down with the Gold fetish! Let all debts be paid in the new money! Let us make it legal tender for all debts, and prosperity will reign on this island for ever!’

“And so it came about. Strange to say, that most terrible prophecy which had been the principal stock-in-trade of Robinson’s servants—the threat that capital was going to leave the island—did not come true. The land did not leave; the houses and factories remained and multiplied. The mines, railways, ports did not emigrate, and stock of all kinds increased largely. The widows and orphans did not suffer, but prospered beyond their most sanguine hopes, because labour of all kinds was in much demand, and was so highly remunerated that anything they could put their hands to paid them ten-fold more than they lost through the cessation of interest on their savings. Only one kind of capital had left—the gold—and that could easily be spared, for the dentists had begun to find out that other fillings of teeth were as good, and gold chains and watch-cases had gone out of fashion since the people had decreed gold to be the badge of servitude which no friend of the people would wear any longer. All other kinds of wealth increased immensely, because the golden fetters which had prevented their production had fallen. No, capital had not left, but some of the capitalists had; first among them old Robinson. There was no need for his leaving, because his accumulations, even though they were converted into the new currency, and though their interest-extorting power had gone for ever, would have kept him and his descendants for generations. He left because he felt that he had lost the esteem of the people, whom he had deluded so long that all his services in the past had been forgotten. He went to live in countries in which his fetish governs yet for a time. Not for long, we

think, for the example of our island preaches lessons of such transparency that even the blindest begin to read them, and it will not be long before the true economic gospel is recognised all over the world."

Even the connection just shown between the two systems is not new, as is proved by the following resolution proposed, more than half a century ago, by James Bronterre O'Brien's National Reform League, copied from his "The Rise, Progress, and Phases of Human Slavery":

"That the National Currency should be based on real, consumable wealth, or on the *bonâ fide* credit of the State, and not upon the variable and uncertain amount of scarce metals; because a currency depending on such a basis, however suitable in past times, or as a measure of value in present international commerce, has now become, by the increase of population and wealth, wholly inadequate to perform the functions of equitably representing and distributing that wealth, thereby rendering all commodities liable to perpetual fluctuation in price, as those metals happen to be more or less plentiful in any country; increasing to an enormous extent the evils inherent in usury, and in the banking and funding systems (in support of which a legitimate function of the law—the *protection* of property—is distorted into an instrument for the *creation* of property to a large amount for the benefit of a small portion of society belonging to what are called vested interests), because, from its liability to become locally or nationally scarce or in excess, that equilibrium which should be maintained between the production and consumption of wealth is destroyed; because, being of intrinsic value in itself, it fosters a vicious trade in money, and ruinous practice of commercial gambling and speculation; and finally, because, under the present system of society, it has become confessedly the 'root of all evil,' and the main support of that unholy worship of Mammon which now so extensively prevails, to the supplanting of all true religion, natural and revealed.

"That in order to facilitate the transfer of property or service, and the mutual interchange of wealth among the people, to equalise the demand and supply of commodities, to encourage consumption as well as production, and to render it as easy to

sell as to buy, it is an important duty of the State to institute in every town and city public marts or stores for the reception of all kinds of exchangeable goods, to be valued by disinterested officers appointed for the purpose, either upon a corn or a labour standard ; the depositors to receive symbolic notes representing the value of their deposits, such notes to be made legal currency throughout the country, enabling their owners to draw from the public stores to an equivalent amount, thereby gradually displacing the present reckless system of competitive trading and shop-keeping—a system which, however necessary or unavoidable in the past, now produces a monstrous amount of evil, by maintaining a large class living on the profits made by the mere sale of goods, on the demoralising principle of buying cheap and selling dear, totally regardless of the ulterior effects of that policy upon society at large and the true interests of humanity.”

To make the connection better understood let us suppose that the money is issued by a State which has monopolised distribution. Such a State purchases from the producers against Exchange notes or State paper money—whatever we choose to call it—and the producers bring the money back again when they buy the goods as consumers. The floating money will then correspond to the value of the stock of goods in the State’s stores. As the increase or decrease of this stock will correspond to a fall or rise of prices, and as the quantity of money issued grows and falls with the stock of goods, we arrive at the rule proposed for the issue of the paper money of the State bank : increase of issue when prices fall, and restriction when prices rise. Of course, where a scientific currency is introduced, Exchange banks are not needed. Anyhow, even where, as in New Zealand, we have a good prospect of carrying such a reform, Exchange banks, while rendering services in the interval—are an excellent means of agitation for the new State currency. Every single Exchange note and cheque is an eloquent preacher against the gold superstition.

Co-operative Settlements

Exchange banking could also help essentially in the establishment of co-operative settlements, whose produce would be

supplied to members of the Exchange bank, while the settlements, in return, could purchase from the Exchange bank members many goods produced by them, and not yet obtainable in the settlement. This would help to bring good prices for the settlement's produce and to a certain extent do away with profits of middlemen. The following article from my *Pioneer of Social Reform* may give some suggestions in regard to the organisation of such settlements, in New Zealand especially :

"How to Solve the Problem of the Unemployed

"TRADES UNIONS PLEASE PAY ATTENTION !

"How to organise a State Farm,

as they call it in New Zealand, but in reality a co-operative settlement, founded either by the State or on independent lines by the workers.

"First, a few thousand acres of land on lease have to be obtained. Probably the State might be induced to help the enterprise by crediting the rent for the first ten years. The land ought to be easily accessible either by rail or water. One-third of the land ought to be adapted to agriculture, one-third to grazing, and one-third would be bush land. Clay, sand, and lime ought to be accessible. The aim of the settlers, as far as possible, must be the production of every article required for their own use. There we shall at once be met by an objection : Is it not better to confine the settlers to agriculture exclusively, and to buy the products of industry they require with the proceeds of their produce, on the principle that it is best to produce everything where it can be produced under the most favourable conditions, and then exchange in the usual way, through the channels of trade ? We reply : Perhaps, if these channels were free and unencumbered ; if the expenses of using them were not higher in most cases than the savings in cost of production under the present system. It has been calculated that the addition to first cost price due to manufacturers' profits, to rents, advertising, travelling, losses through bad debtors and interest, freights, profits, and business expenses of merchants and shopkeepers, inaccessibility of the means of

exchange, of money, the premiums demanded by the money-lord, etc., amount to over 100 per cent. on cost prices; which means that when the goods have reached the consumer the price has doubled. A similar sacrifice has to be made by the farmer as a seller of food and raw materials. On the average, if we count the price he obtains for his wheat and the price paid for this wheat by the townsman in the shape of bread, taking full account of the quota paid to the miller and baker for their work, he certainly does not realise one-half of the price finally paid for the wheat by the consumer. The balance goes to pay for transportation, profits and expenses of middlemen, including landlords and money-lenders. We obtain similar results when we compare the prices realised by the farmer for wool, hides, sheep, cattle, and the prices finally paid by the consumer for these commodities in the shape of woollen clothing, boots, saddlery, and butchers' meat, after deducting the cost of their transformation into the finished article. It is clear that in this way a very large margin is obtained, which by far exceeds that existing between the cost of producing articles of manufacture on the largest possible scale, and that of producing them on the small scale accessible to the co-operating workers. Even if we admitted that the difference in the cost of producing a piece of woollen goods at one of our best organised woollen mills, and at the small workshop of the State farm, were as much as 50 per cent. in favour of the mill, there would still be a great saving for the settlers who delivered their wool to their workshop without any outlay for transportation, commissions, and other profits of middlemen, especially interest on money, and obtained for it woollens at cost price without paying freights and all the profits made by shareholders of woollen mills, all the expenses and profits of agents, merchants, drapers and carriers. The reduction of the price thus obtained for woollens produced on the spot would be so great that even if the local workshop only produced one single pattern, the settlers would buy it in preference to the outside product offered in hundreds of styles. But the very fact that the local workshop will not have to go to the expense of working so many different patterns will again reduce the cost so considerably that the advantages enjoyed by the large mill are diminished correspondingly.

"The plan on which we would like to see such a co-operative settlement established would be, therefore, the gradual organisation of all industries required to supply the settlers on the spot with the necessaries of life, which would not exclude sales outside to procure the few things which have to be bought, such as tea, coffee, spices, fencing-wire, corrugated iron, nails, etc. The settlers will saw their own timber; they will build their own houses and make their own furniture. They will manufacture their clothing, their boots, food; they will make their own blankets, their own tools, etc. Workers engaged in these industries will be able to help the farmers of the colony at harvest time, and their excrements, instead of being a source of inconvenience, as they are in our towns, will benefit the farms. The settlement will be a combination of farm and town, such as Gardner describes in his "To-morrow." A garden in the middle, surrounded by a circular avenue containing the public buildings; around these a park, surrounded by other circular avenues with the dwelling-houses. The outer circle is formed by the factories, surrounded by the farms, the grazing and bush land. Gradually all kinds of improvements, such as gas, electricity for illumination and power, steam for cooking and heating, a theatre, a museum, a public library, and a central kitchen relieving the women from household drudgery, might be added. An important feature would be a central store, through which all the business transactions between the settlers, and between them and the outside world, would be transacted.

"This brings us to the plan of the organisation of production and distribution. This organisation ought to combine the best feature of socialism with the best of individualism. Socialism would in the first lines be represented by common land ownership, to which might be added common ownership of the most important means of production. In the second line, distribution would be on socialistic lines. No kind of distributive business would be permitted to individuals on their own account. The leases of land for dwelling-houses and business localities would contain the proviso that the tenant has to vacate in case he carries on any kind of commercial enterprise. All kinds of distributive work has to be done by the central store. There may be different opinions as to the advantages

of competition in production, there can be none in regard to the part which competition plays in distribution. Competition in production often results in improvements in the processes of production and in cheapening the product. Competition in distribution sets from ten to twenty to do a work which one could do better, and consequently largely increases the cost. It is calculated that with a centralised and well-organised system of distribution on the most economical lines, distribution could be done at from one-tenth to one-twentieth of the present cost. Wages could be trebled or quadrupled without increasing the retail price of goods. The whole trade of the settlement ought to be done by its commercial department, doing the work in the most economical way and at cost, or with a certain percentage added to pay for public improvements. Most of these would be paid for by the rental income, which would in its turn increase through the improvements. Whereas, for instance, when our Government some day will build a railway from Wellington to Island Bay, the main benefit will accrue to the land-owners along the line, such an improvement in our settlement would increase the rental income from the land, which would soon pay for the cost of the road.

Now as to the organisation of production. Here the part of individualism comes in. Labour would be left entirely free to organise production. It would be left to the workers what contract they wished to make with each separate manager of the factories or farms, or whether they preferred to do without managers. Those who prefer a fixed income might make a contract with an individual who grants them such an income, taking as his own remuneration whatever profit he can make out of the business as an entrepreneur. Those who prefer to take the full risk may engage managers on wages or profit sharing, or both systems may be combined. Provided the workers or employers pay the rent which others are willing to pay for the land or the means of production, they are allowed full liberty. The means of exchange would be established on the lines of the New Zealand Commercial Exchange Company, Ltd., which would be ready even to lend its tokens, provided sufficient security is given against abuse. Also, the trade with the outside world might be made easier through the help of the new currency.

"These are the outlines of a settlement which might contain the nucleus of a social commonwealth. One successful settlement would be the progenitor of hundreds on the same lines; these would finally federate and gradually absorb the State of New Zealand, just as certain as civilised nations conquer those on a lower grade. It would at once solve the problem of the unemployed, because it would get rid of the greatest difficulty in the way of a solution. It would not deprive other workers of bread, as prison labour, for instance, is apt to do; because the settlers would consume as much as they produce. It would sift the good-for-nothings, the tramps who do not want to work, from the willing workers who cannot obtain employment; for the system of production adopted would pay each worker according to the work done. Each group would see to that in the interest of its members. Lazy workers would either get less wages, *i.e.*, a smaller proportion of the total product, or they would be expelled from their group. When no other group receives them they would have to leave the settlement, which has the principle that whoever does not work shall not eat—a principle which does not stand in the way of a provision against old age and disease, through insurance. The vagabonds who are expelled from such settlements might be locked up in reformatories if found begging, but with such organisations in which the willing worker can obtain not only the necessities of life but gradually all the luxuries (now only accessible to the rich), laziness would gradually become as rare as the cholera.

"The scheme has the advantage that we need not the help of the State to carry it through. If the Trades Unions, instead of collecting a strike fund, would use their means for the organisation of such a settlement, they would find helpers among the wealthier classes, and soon the funds required for the first settlement would be collected. We hold ourselves at the disposal of any Trades Union willing to work on these lines.

"*The best class of workers* ought to organise these settlements; not, as often has been the case, those who cannot find paying employment in the competitive world. When employers cannot get the best material, they will take the second-class quality, and will educate them until these workers, too, are ripe for self-organisation.

The means ought to be provided mostly by the settlers themselves. I cannot remember a single enterprise of this sort which succeeded where philanthropists contributed the capital. Ruskin Colony, in the United States, was making excellent headway on the principle that each settler had to contribute \$500, and was wrecked only through unfavourable State laws which did not grant a good charter.

The British Labour Co-partnership movement has proved a success only since it has been started by the workers with their own means, though not excluding outside capital.

The objection that such settlements *withdraw active reformers from political life*, where they might do more good through their propaganda work, is not valid in New Zealand, where this propaganda work would only be strengthened by the excellent object-lesson which successful social settlements would give; whereas the small size of the country would enable the men to participate in political work at large.

It is absolutely essential that *communistic lines be let severely alone*. Whatever the future may bring, we are not yet ripe for the principle of "by each according to his abilities; to each according to his wants." I do not know of a single communist settlement successfully continuing over ten years, unless founded by religious sects, whose belief and rules supplied sufficient restricting power to human selfishness.

No more land ought to be secured than can be paid for, unless the State grants favourable leases on the principle now proposed in New Zealand for settlers in the back blocks, who are to pay no rent for a number of years until the land has been brought into cultivation, and public roads have given easy access to it. Too much land and its outcome, the mortgage, have killed more such settlements than any other cause.

The reader who wants to become better posted as to the experiments made in this direction can find details in "The Communistic Societies of the United States," by Charles Nordhoff, and "History of American Socialism," by J. H. Noyes.

I have yet to mention two different kinds of social settlements of a more limited scope. One is described in the following review taken from the *Pioneer of Social Reform*.

Garden Cities**"TO-MORROW"****A PEACEFUL PATH TO REAL REFORM**

By E. HOWARD

(Swan Sonnenschein & Co., 1898)

"On p. 103 the author, referring to ideas coinciding with his own which he was unacquainted with when he wrote his book, remarks how, in the search of truth, men's minds run in the same channels. The whole book offers a striking proof of this fact to the editor of the *Pioneer of Social Reform*, for it gives ideas and plans which are almost identical with those he had worked out himself, and partly put before the Topolobampo colony about five years ago. The coincidence extends even to part of the very designs and forms of the proposed garden city.

"As modesty forbids to praise ideas which we ourselves once held forth upon, the editor is hampered in his review and in the hearty praise he would otherwise give unstintedly, and he must, therefore, confine himself to a terse statement of the author's plans, and a few remarks connected with them. He trusts, however, that he may be permitted to advise his readers to purchase the little book, feeling sure that its consideration will do an immense deal of good in this country, where the execution of the scheme offers even fewer difficulties than the Old World presents. It is quite certain that here a method is indicated which is immediately practicable, and which, though likely to be more easily carried out than the majority of plans of social reform, would have at the same time far-reaching consequences.

"Two magnets attract the people at present: Town and Country. Each has its advantages and its drawbacks. In the country we have Nature with all its beauties, but lack the social advantages offered by the town; and in the town we have to go without the sweet pleasures found in communion with Nature. Here cheap rents, but lower wages and less variety of work; there high rents in slums, but greater chances of finding congenial employment at paying rates. Statistics prove that the town magnet proves the stronger of the two, for the towns are

growing more rapidly than the villages. Nowhere is this shown better than in the United Kingdom, where the big ulcer, called London, draws the life-blood from rural England, and threatens to depopulate the shires. Liverpool, Glasgow, Manchester, Birmingham, Dublin, etc., are the smaller, but also quite respectable, cancers helping in the nefarious work.

“Why not create a new magnet offering the attractive powers of town and country combined? Why not purchase a section of farm-land, lay it out as a township, and from the very beginning keep away the life-destroying bacillus which has been the ruin of our towns: land speculation? The plan is a very simple one. The land is to belong to the municipality, and the ground-rents are to be used for the benefit of the inhabitants—not of the fortunate minority who have been lucky enough to obtain a hold upon the soil of the town. Instead of breeding dukes of Westminster and Bedford, with their untold millions—cultivating them through the produce of the labour and the mere presence of the inhabitants—use the increment resulting from these elements to provide a little paradise such as the world has not hitherto seen. Such, in brief, are the thoughts which Mr. Howard unrolls before us on 167 pages, illustrated by a number of excellent diagrams. It cannot be the purpose of a short review to go into details. Suffice it to say that the form adopted for Garden City is the circular one. A park surrounded by the public buildings forms the centre, around which the town is built in circular avenues, crossed by diagonal roads. The park is surrounded by a glass-covered avenue containing shops, in which the inhabitants can make their purchases. At the same time, this avenue serves as a winter garden; it is called Crystal Palace. Canalisation, lighting, water-power, and communication are provided by the municipality on the most approved plans. The outer circle contains the factories, and beyond these are the allotments for gardening and farming. From any point the centre can easily and quickly be reached.

“Without going into Mr. Howard’s elaborate details, a very simple calculation will show at once how easy it is to provide the funds for all this. The yearly ground rental of London is over sixteen million pounds. The city and its suburbs are built on 75,000 acres, which, at the price of farm land, would cost three million pounds. The interest and sinking fund of

this amount would be £130,000 yearly, an amount so insignificant that we can leave it out of consideration, for the mere yearly increase of the sixteen million pounds is much greater. Therefore we can safely say that if a new London were built on agricultural land, bought at £40 an acre, in some part of the country, and if it obtained the same number of inhabitants as the present city, sixteen million pounds could be spent yearly on the improvement of the town. But even this enormous figure does not give us a fair idea of the real case, for we must not lose sight of the fact that the greatest part of the expense of present town improvements goes towards buying land—which would be entirely saved in Garden City, where the land belongs to the community. Furthermore, it is evident that it is one thing to improve an existing town, badly built, and without any system, and another to create a new one where every single building finds its place on a plan settled before a spade is put into the land. Think of the difference in cost when subways, canals, streets, etc., are made for each section before the first house is built, or when they have to be cut through valuable property and in the midst of continual traffic!

“We hear the objection that London, and most of the other large cities, have been built at certain points, generally at the head of navigation, where the natural advantages for a city were found, and that it would be impossible to find equally advantageous locations elsewhere. Granted; but let us not forget that only a small fraction of the population had settled at those places because of the just mentioned advantages—only those whose business is to distribute bulky goods arriving by water, and those who manufacture them on the spot. By far the greater proportion of the population has been attracted through the presence of the distributors and manufacturers, and the consequences of their presence. These consequences are: (1) Improved means of communication, mostly entirely independent of the location, because railways can be built elsewhere as well; (2) places of instruction and amusement and social intercourse, which could be obtained in any other place where the same number of people settle; (3) means of making a living, which mostly are derived from the aggregation of so many people, and not from the locality. As an example of what could be done, Mr. Howard points out one trade

which could be carried on as well outside of London, the clothing trade, on which 150,000 people are depending for their sustenance. We may safely say that of the 6,000,000 people at present living in London, not a quarter of a million would give a preference to just this locality if the other $5\frac{1}{2}$ millions were not there. The reasons which caused the first settlement would not have any weight with more than one-twentieth of the present inhabitants, but they act like a flock of sheep, which jump at the same place where the leader jumped, even if the obstacle over which he jumped has been taken out of the way. Only a small fraction of the population of a country is needed for shipping and wholesale distribution from the shipping port, even if we add those manufactures which are best carried on at this port. The majority live by agriculture and the different industries or professions, or are employed in that kind of distributive work which can be carried on from any centre of population. Just figure how many people would be really needed at Wellington if it were only for the advantages offered by the port, and how many could just as well live in an inland town well connected by railroads, and surrounded by manufactures of all kinds and by intensive agriculture! There is nothing in the way of carrying out in New Zealand the plans which Mr. Howard has put forth for England. Only, instead of paying £40 an acre, land away from railway communication could be obtained here at £1 an acre. If the people were coming to live in the new town, their mere presence would create such an enormous increment that the railways connecting the town with the trunk line, and those connecting it with the surrounding garden cities, built at certain distances from the Central City on the plan of our author, could finally be paid out of a few years' rental income.

"All that is needed is to will it, and the thing is done. It could be done here much quicker than in England. The mere readiness of 100,000 people to settle in such a place would produce values on the security of which it would be easy to raise the necessary funds, even without State aid, which, however, would be easily obtained here, whereas such a thing is out of the question in the England of to-day. We invite Mr. Howard to come to New Zealand, and to work out his scheme here. We shall give him our heartiest welcome and co-operation."

Nothing proves more clearly the absolute want of progressive spirit among British co-operators than the fact that in the four years which have elapsed since the appearance of Mr. Howard's book practically nothing has been accomplished but the creation of a propaganda society ;¹ while, if co-operators had adopted the excellent plan, garden cities would already arise in the neighbourhood of all the large centres. This would help to solve the housing problem for the members—would make them their own landlords. Monopolists would no more squeeze out of them an ever-increasing share of their earnings in the shape of rent. Apathetically they let Mr. Howard struggle along with the noble work he so disinterestedly carries on for them ; just as they sat quietly listening to my proposals, without taking the least step to give them a test, only a few turning up at meetings to which I came without any charge to them for time or expenses.

Co-operators as Voters

But Mr. Howard's plan is not the only means of obtaining land. If the 1,800,000 members used their political power as voters to put an end to landlordism in Great Britain, they would soon cut off the heads of this hydra ; but in vain have the most eloquent appeals been made in this direction, especially by my old friend, Alfred Hood ; nothing worth mentioning has been done as yet. It is all very well to possess a co-operative capital of 20 millions sterling, to boast of a turnover of over 60 millions, and profits exceeding 7 millions ; it is certainly a great accomplishment ; but of what use is the best armament if it is allowed to rust in idleness ? Merely saving a few pounds on sugar, butter, calico, etc., when earnings may fall more on the other side than can thus be made up, is certainly a poor show for such means of action.

Another kind of social settlements, as urgently needed as garden cities, which the latter, however, could greatly assist, just as they could also form a basis for co-operative production and distribution, are

¹ Garden City Association. Thomas Adams, Secretary ; 77 Chancery Lane, London, E.C.

Co-operative Households and Associated Homes.

When we want to produce cotton goods, the central steam engine has long since taken the place of thousands of wheel turners ; but when we wish to produce roast beef, thousands of cooks have still to perform a work which a dozen could do far better under a system of centralisation.

I need not enter into the complaints about servants, the usual topic where two ladies meet ; nor is it necessary to say anything about the worry of housekeeping, which so absorbs the average woman that she has little time left to educate her children, and still less to improve her own mind. The estrangement from the husband who looks outside for the intellectual intercourse he cannot find at his own fireside, and the whole tragedy which ensues in "home, sweet home," has only too often been treated to need discussion here. And yet no reform could be simpler. Even if associated homes should meet too much resistance, a beginning ought to be made with associated cooking, washing, and house-cleaning on the plan lately tried in Manchester.

A band of Manchester ladies have embarked on a novel scheme to solve the vexed servant problem. A limited company, to be known as the Manchester Distributive Kitchens, Limited, has been started, the £3,000 capital being quickly forthcoming. "We intend eventually," said the honorary secretary, Mrs. R. Brodmeier, in the course of an interview, "to deal with all branches of domestic service, but for the present we shall be content to do what we can to make up the inadequate supply of efficient cooks. A table compiled by the registry department of the Girls' Friendly Society shows that in 1898 337 cooks were wanted, and only 47 offered. The scarcity of good general and other domestic servants is undoubtedly felt in many British households ; but we shall have to proceed step by step in this ambitious scheme, and if we are only successful in meeting the lack of cooks, we venture to think we shall have rendered a public service. We propose to establish in suitable localities distributive kitchens. These departments will furnish the necessary training schools for

cooks, under proper supervision, and householders can depend upon obtaining efficiently cooked food of good quality, prepared with cleanliness, and packed by competent hands. Hot deliveries can be effected at a distance of five miles. This arrangement has proved useful and popular on the Continent, because it promotes comfort, economy, and thrift."

The next step would be to build, say, a thousand houses, without the usual kitchen and its expensive range, without a wash-house and a dining-room; and though building cheaper, give them better bedroom accommodation; whereas one central kitchen, store, laundry, and dining-hall would take the place of the thousand. Those who prefer to dine at their own house could still do so, and steam-heated carts could bring the hot meal to them. A Kindergarten and school, a swimming bath, a gymnasium, social and reading rooms could be erected in a fine park around which the houses were built; but still not more land would be needed than 1,000 houses with their yards and little gardens now require, while the building of simpler houses in such large numbers, the saving of 1,000 ranges and sets of kitchen implements, would certainly reduce cost price, even after paying for the central buildings. Everything would be bought wholesale, and a bakery and butchery could be annexed to the central buildings, or could be built elsewhere. The servants would work on the factory plan, with all the advantages which now attract them to the factory, and without the thousand unpleasantnesses which make domestic service so distasteful to them. No more tyranny of mistresses, no more want of freedom and independence. Eight hours' work for each shift, under the supervision of experienced matrons; and no further connection with each householder than to do their work by the hour, and to have the householder clip off the working time on a card; while, as a control, the worker clips off the same figure on the householder's card. Complaints to be addressed to the office.

Instead of a considerable number of small cottages, a few large central buildings on the plan of *Fourier's Phalanstère*, exemplified by Godin's people's palaces at Guise, France, could also be erected, with central heating and lighting arrangements. Productive work might finally be carried on by the settlement, whose custom would provide a ready outlet for it. A thousand

families would, for instance, need enough clothing, boots and shoes, shirts and underwear, socks and stockings, etc., to keep a small factory going ; enough food-stuffs to provide employment for a number of farmers and gardeners. All this and much more could be done, and the system would also afford a good deal more enjoyment to the members, at less cost than the wasteful present practice ; but it will be the last reform we shall get. We shall perhaps have the socialist commonwealth before we have a general adoption of the Associated Home system ; for " Home, sweet home " will be the melody to whose chimes the galley slaves, called housewives—with or without the scourge of underslaves—will continue their wearisome daily drudgery, world without end. Amen.¹

¹ For those who think me too pessimistic I state the simple fact that a letter to the *New Zealand Herald*, in which I proposed to the people of Auckland co-operation in householding, and which closed with the words : " I am ready to take my share ; who else is ? " brought me one single application only, and that was from a man who wanted to sell me land. I have found the same apathy on two previous occasions when I made similar proposals in other cities.

CHAPTER X

DEMOCRACY

The Plea against Democracy

DEMOCRACY is violently attacked by those whose comfortable seats on the back of the people are in danger of being lost through any unruliness on the part of the poor beast of burden. This is only natural, though not reasonable ; for any clear-headed observer must become aware that the penetration of education into the lowest strata of the population can only end in one inevitable result : the demand for equal rights. Also, that not much time will elapse between the moment when this demand is made by the long-suffering, and the occurrence of one of those terrible upheavals of the comfortable resting-places whereon the upper classes are so complacently philosophising—of which history gives innumerable accounts. Now, all riders know very well that it is much pleasanter to get down from an unruly horse while it is quietly standing still than to wait until it is most disagreeably rearing and plunging.

Foolish as the stolid passivity of the governing classes may be, we can understand it. The riding business has been going on for so many thousand years, the habit of beholding the world from the backs of the oppressed masses has become so inveterate, that the idea of getting down is entirely superseded by schemes of better bridles and spurs. If such people declaim against universal suffrage and other conquests of democracy, we need not be surprised ; but the case is slightly different when some of the highest intelligences are found in the same camp : when a Carlyle, with his " Niaraga, and After," or a Huxley, are among the enemies of democratic rule.

I quote from an article contributed to the *Nineteenth Century* April, 1890, in which I defend the theories of Henry George against an attack of Professor Huxley which had appeared in a

previous number of the magazine.¹ Only the introduction refers to the subject in hand.

"In the January number of this review, Professor T. H. Huxley contributes an article, 'On the Natural Inequality of Men,' in which he attacks J. J. Rousseau, and the declaration of the rights of man, in so far as they declare man to be born free and equal. As long as Professor Huxley confines himself to the special department of knowledge, to the domain of biology, in which he is of a world-known celebrity, he remains master of the field. His proofs that man is born neither free nor equal are irrefutable.

"It is true that a child is a helpless slave when it begins its career in this world, and it cannot be denied that even the children of the same family are by no means equal in their capacities and characters. 'Some are more powerful and honoured than the rest, and make themselves easily obeyed.'

"So far all right ; but the moment Mr. Huxley begins to draw political conclusions from these facts I am no more with him. He brings nothing new when he launches his arrows against universal suffrage, pointed with the argument that only the capable ought to govern. Even the simile he employs is borrowed from that of Carlyle, in which that great writer declares his opinion of the infeasibility of a ship getting round Cape Horn by calling the crew together and taking a majority vote as to the direction to take, instead of having the competent officers decide it by means of their instruments. If a real ship cannot be kept off the rocks by such means, how is the ship of State, with its much more complicated course, to be protected from the dangers besetting it from all sides, if numbers and not competency are to decide its direction ?

"Alas ! it is an old, old question, as old as the world, this question of government given to strength and capacity, instead of being the outcome of majority votes. Hero-worship *v.* popular rights—all the world's history is nothing but an infinite series of variations upon this theme.

¹ Henry George was in Australia when Huxley's attack appeared, which made me take up the cudgels for him. On his way back he wrote me : "I congratulate you on your answer to Huxley. . . . I may write something on the abstract points you did not discuss."

“‘The proof of the pudding is in the eating,’ says an English proverb. If we apply this old and simple method to the working of the principles in question, we come to a result quite the reverse of the one anticipated by Mr. Huxley. The tyranny and bad government of ages stands arrayed against the system of governing the masses by the classes, for this is what hero-worship will come to in the end. Even heroes are poor human beings, full of human failings, among which vulnerability to the effects of flattery and adulation stands foremost. The foul emanation of these swamps will finally create a mist around the most pure and upright, through which the sun of truth will find it harder and harder to penetrate. The uneducated common-sense of the poor clown finally will see in a clearer light the real purport of the most momentous questions touching the public weal than our poor despot in the midst of the haze by which he is surrounded.

“But this is not the worst by any means. As long as the real hero lives, things may work tolerably well ; but he is subject to another incurable failing, that of being mortal. Who is to be his successor ? We cannot get him elected by the popular vote, for that would be having the crew take a part in the guidance of the ship, which is just the thing to be avoided. The hero himself, or the wise ones appointed by him, will attend to it. They did so since untold ages. What was the result ? Have they always picked out the wisest ? Have they, has he, governed for the welfare of the people ? Emphatically, history answers ‘No’ in the overwhelming majority of cases. The frailty of our poor human nature brings it about that irresponsible governors and legislators will first think of their own interest before they give way to any other consideration. The final result of aristocratic rule always has been, always must be, that the governing minority will enslave the powerless majority, will make it give up to them the land and the best of its fruits ; will make them do all the work for their superiors, who finally believe themselves of a higher blood, born with special privileges, entitled to the right of spending their lives in laziness, and having the masses support them by their labour. Labour becomes a taint ; graceful loafing the badge of gentility. Most of the governing done by them is to conserve and, if possible, increase the privileges they enjoy. Commons are enclosed

without any regard to the rights of commoners ; wars are waged in the interest of the governing classes, whereas its charges are borne by the people. No, no, Messrs. Carlyle and Huxley, that kind of governing the ship of State has not proved a success ! It may be that the crew will not always pick out the best man to take the rudder, but certain it is that the monopoly of steering given to a privileged minority has mostly failed to bring out the best man. And who would blame the poor slaves in the hold of a slave-dhow that they think it better for them if they can get the mastery of the vessel, even though they know that they have not got the captain's science and experience of steering ? It is true that he would be much more likely to bring the ship safely into port than they in their inexperience ; but what kind of port is it he brings them to ? The slave-market, the place where they are to be sold like cattle to hard and inhuman masters. Do we blame them if they do not care much for the arrival in such a port, and that they rather run their chances of getting into any other place, be it even a desert island or of meeting death in the waves of the ocean ?

"There is only one clear course marked out for a man loving his brethren and mindful of their real good : that is for him to give them the full power over their own destinies, and to work with all his might that they may get sufficient instruction to use this power. Nobody ever learnt how to swim without going into the water, and if we want a crew to know how to steer a ship we must give them a chance to learn it ; not by jealously keeping them away from the rudder, but by letting them steer, and standing by showing them how to do it. Instruct the people, and cease to be afraid of their ignorance if you succeed. Success is impossible, however, unless you look to something else first, and that is their being sufficiently fed, clothed, and housed, for there is no way of getting knowledge into starved brains. And this brings me to the main question, to which Mr. Huxley gets in the course of his article, that of land ownership ; for there is no possible chance of ever really improving the people's social position without first righting this fundamental question."

Though economic liberty is unattainable without political

liberty, political liberty is a mockery without economic liberty. This has been fully recognised by a Conference at Buffalo, State of New York, in July, 1899, attended by nearly 900 delegates. The following is an extract from an address to the people drawn up mainly by Professor Herron, and which was adopted by the Conference :

"We would urgently emphasise our belief that the militarism which menaces us as a people is but the offspring and incident of the greater menace of plutocracy, which has established monopoly government in the place of government by the people.

"Monopoly rule is intrenched in every branch of national, state, and municipal government. By economic force based upon special privileges in law and natural resources, upon indirect taxation and consequent limited competition, monopoly is centralising the wealth of the nation in the hands of enormous trusts which are becoming irresponsible economic despotisms ; which are using legislation, the judiciary and all the functions of government, as the mere instruments of private property ; and which are reducing the entire people to economic serfdom or enforced wage-slavery.

"Political liberty is a mockery without economic liberty. No man is in any sense free, either in practice, or religion, or science, so long as he is in enforced dependence upon some other man for the opportunity to earn his livelihood. No individual or political rights are secure without security and equality of economic opportunity. Equality before law and institutions must be based upon equality of opportunity and access to the resources which the common Father gave to all people in common. If the State permits a few men to own the earth, then these few own the rights, liberties, and moral well-being of the people who must live upon the earth. Even the further extension of the suffrage, so as to grant political citizenship to women, which extension we urge and advocate, will avail little or nothing without economic freedom to all.

"We therefore make urgent appeal to the people to co-operate with us in the institution of such movements, and the support of such men as shall propose a social political programme."

The important relationship existing between political and economic liberty is my justification for devoting one chapter to politics in a book exclusively concerned with economic questions.

I begin with the foundation :

The Suffrage.

After what I said in my reply to Professor Huxley, I need not add that I am for the widest extension of the suffrage. I cannot even advocate an education test, except perhaps for immigrants, for whom also a certain probation time may be demanded, perhaps of five years, as in the United States ; or less, if an examination proves that the immigrant possesses a certain education, and that he understands the language of the country. Anyhow, I am against any test for the native citizen, because it would supply a motive to the governing classes to keep education back, and so to limit the vote ; while the very dangers connected with the grant of political power to the ignorant must form a strong inducement for those who have most to lose to supply a good education to the masses. I am also for an extension of the active and passive vote to woman. That in most cases the married or betrothed man thus obtains a double vote cannot be looked at as an inconvenience ; for after social reform has been attained every man can marry, and ought to do so. Accordingly, the relative disfranchisement of bachelors can scarcely be looked at as a just grievance. I should not even object against the proposal to grant an extra vote for every two children who have not yet obtained the franchise, and whose interests in the State father and mother represent, at least until the time of

Neo-Malthusianism

may some day have come, a time which the triumph of a fundamental social reform will relegate to the distant future. Wherever this reform is attained, the State has every interest to promote an increase of population. Those who have read so far need not be told that a real over-population exists in no part of the world. What we call so is nothing but the effect of

conditions which prevent production from keeping abreast of productive power. There is no need of referring to regions like that drained by the Amazon, where enough food could be grown to sustain the whole human race; for by the application of an intensive system of agriculture even the most thickly peopled countries could maintain much larger populations, even if they had to grow their own food. But this will be unnecessary as long as the exchange of the products of industry against those of the soil can go on untrammelled between the different countries. Our New Zealand could certainly maintain fifty persons where one lives at the present time, and thus would not only become richer in the totality of her wealth, but also per head of population, as the productive power of man grows through improved division of labour—anyhow, until certain limits are reached which we need not expect to attain for centuries to come. It will then be time enough to discuss Neo-Malthusianism.

Property Qualification

Increased voting power given to fathers of families would certainly be more justifiable than that given to property, as in Great Britain and Belgium. The property vote is a last remnant of those old times when the conqueror took the land and made the former owners slaves, or at least denied them the right to participate in the government of the State, on the ground that landless men are not free men. The premise is correct—as Chapter II. has shown—but the conclusion is a little misplaced in the mouth of those who themselves, or whose predecessors, helped to make the people landless. We can hardly sympathise with the robber who first takes a man's property and then disfranchises him, on the ground that a man who has no property has no stake in the country. If we substitute "town" for "country" we can hear such arguments even in our democratic New Zealand when the municipal franchise question is discussed. The honourable gentlemen who, on similar grounds, persist in refusing this franchise to those who pay no rates, are not aware how they heap insult upon injury. Not satisfied with first monopolising the people's land, they then want to disfranchise the landless man, because he has been de-

prived of his rights in the common land. Land restoration will for ever silence such impudence. Nobody will then dream of withholding the franchise from the landlord, the people, while giving it only to the tenants, to those who leased the land from the people. Giving to property, or to knowledge, the exclusive franchise, is simply the perpetuation of the old device of the monopolist desirous of keeping the people under his dominion. He claims the government for the learned, and uses his power to perpetuate the ignorance of the masses. He demands the exclusive power for the man of property, to enable him to keep the others out of their property. It is like enslaving free men, and then proclaiming their slavery as a ground for the refusal of all means towards regaining their freedom.

That a property qualification is not only unjustifiable but absolutely grotesque has been shown by Benjamin Franklin's well-known query : " You attach the franchise to the possession of \$100, and as I own an ass worth that amount, I am a voter ; but to-morrow my ass dies, and I am disfranchised. Now who has been a voter : the ass or I ? "

Voting Systems

It is not enough to allow every citizen a vote ; it is also essential that this vote should be made effective. Every voter ought to be represented in the Government of the nation as fully as every other. I need not say that this is not the case in most countries—in our New Zealand less than in monarchic Germany—for we even have not got the

Second Ballot.

With us a relative majority still elects a candidate, though the absolute majority may have voted against him. If the Conservative candidate has 2,000 votes, the Liberal one 1,900, while the Prohibitionist polled 1,500, the Conservative is declared elected, though the 3,400 voters on the other side may be violently opposed to him. In Germany, in such a case, where none of the candidates has an absolute majority, a second ballot would be called between the two candidates who polled most heavily—in the above case, between the Conservative and

Liberal candidates. As the Prohibitionists would, in all likelihood, have more confidence in the Liberal than in the defender of vested rights to which licenses belong, their votes would swell those given for the Liberal candidate to 3,400, so that he would beat the 2,000 Conservative votes. Thus a totally different result would follow through a more rational system. That even such a simple reform has not yet been carried in this country is easily explained by the greater chances which the crude old method gives to the domination of party leaders. Their machine is the strongest, and holds the votes best together, while the antagonists are much more likely to split into fractions. Thus a well-united minority vote ensures a continuance of power, though the great majority of the country may be irreconcilably opposed to the governing party. In a similar manner a few individuals, or one man, may obtain the lead in the party caucus where the nominations of the candidates are made, which often intensifies the dominion of one party into that of one man. Under such circumstances, we can hardly expect that one man to be very eager for a more democratic ballot system.

Direct and Indirect Election

The power of the caucus was recognised long since, and the indirect vote was tried to overcome it. It was seen that, as a rule, only the regular party candidates have a chance of success, and that splitting of votes—especially where there is no second ballot—usually results in the election of an antagonist. Choosing between two evils, the people prefer the lesser: the man of their own party whom they do not like, to the candidate of the other whom they detest. Thus, gradually, a little set of self-appointed men, called party bosses, have become the electors of the people's representatives. I purposely say "electors," for the man whom they nominate is practically elected if their party is in the ascendant. The idea naturally arose that, if there is to be a caucus, it is better to have the whole people participate in its composition than to give this power to the bosses, to the professional politicians—which resulted in the indirect election system. It is this system on which the election of the President of the United States is

supposed to take place. The people elect a committee, which has the power to elect the President. This would have been a perfect method if the direct and indirect systems had been united; if the appointed electors, called primary electors, had merely to nominate a candidate, or better yet, candidates—a majority and a minority candidate. This was omitted, probably on the consideration that it would only prove a useless complication, as the candidate who receives the majority of the delegates' votes is most likely to also possess the confidence of the majority of the people who elected the delegates. The result of this intended economy of power was simply to effect what the system tried to avoid—the delegation of the nomination to another committee, the caucus, consisting of the appointees of political clubs, mostly composed of politicians, or, anyhow, of self-appointed men, not emanating from universal suffrage, nor in any other way holding a mandate of the people at large. Furthermore, the entire effacement of the official delegates, who are mere puppets ordered to register the mandates of the electors who sent them, not even knowing the names of the delegates before they went to the poll, and were told that Jones is a M'Kinley delegate, while Hobson has to vote for Bryan. Up to that moment they only knew that they were going to vote for M'Kinley or Bryan. The self-elected caucus has in this way taken the place of the delegates of the people, leaving to the people only the choice between parties, but not between men, which enables the politicians to put in their ready tools. The remedy would be to make the official delegates the caucus, and to let the people vote on the candidates these delegates have selected; but it is questionable whether it is not too late in the day to make such a change, as probably the power of precedent and habit would continue to make the delegates the mere mandatories of the caucus, just as the candidates for Congress, or for the Legislatures of the States have become. There is a far better way out of the hands of politicians and bosses, a way which offers other important advantages, and that is the introduction of

The Proportional or Effective Vote.

Before entering into the description of the system, we have

to cast a look at the unproportionality of the present method of voting, at its ineffectiveness, to bring out the will of the people.

Let us suppose the case of 80 constituencies of 6,000 voters each, of whom in each electoral division 3,001 vote for the A party, while 2,999 vote for the B party. In this case, the parliament will merely consist of members of the A party, and the B party is not represented at all, though half of the voters have plumped for it. Under the proportional vote this result would be impossible; each party would elect one-half of the members.

The best system of proportional voting is indubitably the Hare System advocated in the Southern hemisphere by my indefatigable old friend, Miss Catherine Helen Spence, so that it is often called here the Hare-Spence System. I think the clearest description of it can be obtained from the articles of association of the New Zealand Commercial Exchange Company, which elects its directors on this system. I have especially to thank Mr. C. B. Morison, of Wellington, the solicitor of the Company, for the help he gave me in working out these paragraphs, which owe their conciseness and clearness to his untiring efforts :

114. All elections of Directors shall be conducted in accordance with the system known as the Hare-Spence System, hereunder described.

In this clause the expression, "full quota," shall mean the amount of the quotient resulting from the division of the total number of votes polled by the number of vacancies to be filled (leaving any fraction out of account).

(a) After the nominations of candidates for election have been closed, each voter shall number in the order of his preference on the voting paper, commencing with the number "1" the names of as many candidates as there are vacancies (or if he so desires, the names of more or fewer candidates).

(b) The vote of each voter shall be used for one candidate only, according to the order of the voter's preference.

(c) The result of the voting shall be ascertained as follows:— Each voting paper shall at first be filed under the name numbered "1" thereon, and when all the voting papers are so filed, the votes on each file shall be counted; and if any candidate

shall have received more votes than the full quota, the votes last filed in his favour shall be taken from the file, until the votes remaining thereon are reduced to the full quota.

(d) Every candidate who shall have received the full quota shall be deemed to be duly elected and his file shall be closed, and no further votes added thereto.

(e) Any voting papers taken from the files of any candidates who shall have received more votes than the full quota shall be distributed over the remaining files, or over new files if necessary, as votes for the candidates whose names are numbered "2" on the voting papers so distributed, or according to the name of the candidate numbered next highest not already elected, in case the candidate whose name is numbered "2" on any such voting paper shall have been already elected.

(f) After such distribution the votes for each of the candidates shall again be counted, and where any candidate shall have received more than the full quota, his votes shall be reduced to the full quota as hereinbefore provided, and the surplus votes distributed over the other files, or over new files if necessary, according to the names numbered "3" on the surplus voting papers, or according to the name of the candidate numbered next highest not already elected, in case the candidate whose name is numbered "3" on any such voting paper shall have been already elected; and so on, whenever any file shall have a surplus of votes over the full quota.

(g) After all surpluses of votes (if any) have been redistributed as aforesaid, the contents of the file containing the smallest number of voting papers shall be distributed over the remaining files, or new files if necessary, as votes for the candidates whose names are numbered with the next highest number on such voting papers not already elected. This process shall be repeated with the voting papers on the file for the time being containing the smallest number of voting papers; and so on, according to the numerical order of the remaining names not already elected on each voting paper taken from such small files, until the voting papers are, as far as possible, redistributed over the files containing fewer votes than the full quota.

(h) Any surplus of votes arising from the redistribution of the votes from the files containing the smallest number of

votes, for the time being, shall be dealt with as hereinbefore provided.

(i) After the voting papers have been redistributed as above, as far as possible, the candidate or candidates (to the number necessary to fill the vacancies), who have received the greatest number of votes shall be declared duly elected, whether or not they shall have received the full quota of votes.

(j) In the event of the necessity to decide between two or more candidates who have received an equal number of votes, the Chairman or Presiding Officer shall decide the election by his casting vote.

The Proportional Vote in Tasmania

An article from a periodical may serve to show how the system works in practical operation :

" On March 19, 1901, Tasmania held an election for representatives in the Federal Parliament, using the proportional representation system. The island elected six senators and five representatives. For the senators, 18,403 ballots were cast, besides 419 invalid at the start from improper marking, and 1,112 became inoperative in the course of the count, because when those ballots were reached all the candidates on them had either been elected or 'eliminated' in the course of the count, leaving 17,291 voters who aided in the election of the candidates to represent. Thus nearly 92% of the voters were represented, while in ordinary elections sometimes a little over half the voters, and sometimes a deal less, are represented, and very inadequately at that, being compelled to vote for the nominees of the machine.

" Similarly as to the House, 18,039 voted, of which 1,014 were 'exhausted' in the count, besides 533 mismarked, leaving 17,025 electors represented, instead of half of them being practically disfranchised.

" All were elected who received the highest vote on first choice, so that the transfers from second, third, and subsequent marks of preference made no difference in the result ; but the voters knew that, as a rule, they ran no risk of 'throwing away their votes' in voting for the men they deemed most

competent for first choice, because, if not utilised for these, they would be for less popular candidates marked '2,' '3,' '4,' or '5.'

"The man who received most votes on first choice was Premier Braddon, a strong advocate of proportional representation. Out of the 18,039 votes cast for representatives, he received 4,723—over one-fourth. Next to him came O'Malley—a Canadian of Irish parentage, a strong advocate of the rights of labour—with 3,940 votes."

So far as we can judge from the Tasmanian press, there are no objections to the proportional method from any party, all realising that they get exactly what they are entitled to. Some have thought that under this system local interests would not receive due consideration, and that the centres of population would get more than their share of members. But such has not proved to be the case, all parts of the island being fairly represented.

No difficulties or complications whatever were experienced in the count, although the ballots were brought from all parts of the island to be counted in Hobart, located in the south-central portion.

It destroys the Power of the Caucus

President Garfield said men in his State had gone to the poll for thirty years, with no more chance of seeing a candidate of their own way of thinking in Congress than if they had lived under the Czar of Russia.

The proportional vote not only elects according to the preference of the voters, but also nominates as the people desire. Anybody can propose nominees for the party, and if he finds a certain support, can have his man on the list. It does not matter if by that means many more candidates are on the list than there are places to fill, because not a single vote will be wasted. Each elector adds numbers of preference to the names on his list, and according to these numbers will his votes be counted. If he has given his number one to a man who has not the shadow of a chance, his vote will count for the man to whom he gave number two on his list; and so forth, until it is

counted for someone on this list who receives enough support from other votes to obtain the necessary quota. In this way every voter has a chance of nominating his own candidates, and of testing the popularity of these candidates. If he succeeds in obtaining a sufficient number of votes for his nominee, he will carry him through; if he does not, his vote is not lost for all that, as it finally counts for somebody of his party whom he likes next best to the other nominees preferred by him. The business of the caucus thus will have been given over to the whole people, as it ought to be.

Of course, the most important effect of the system is that it would gradually break up parties altogether, or anyhow, parties in the present sense of the word. In a general sense, there always will be parties, for two men who agree to vote only for men advocating a certain policy already form a party. What I mean by party here is the erection of a few big pens, sometimes two only, into which the electors are forced according to their preference, if they do not want to waste their votes. Whether certain principles or only the names of certain leaders are affixed to the pens' doors is immaterial. The proportional vote would leave it to the electors how many different pens they want to erect, and in which special pen they feel more comfortable.

A Parliament elected on these lines will not see itself reduced to the position of being a mere recording machine of the decisions made by the caucus, with a certain permission to talk as much as the members like, under the silent agreement that the talk is absolutely useless, as the result will not in the least be affected by it.

A Parliament elected on the proportional vote system will not possess caucuses sufficiently strong to thus arrogate the people's privileges. The discussion will become again what it once has been, the pleading of a lawyer before an impartial judge, who, though he has already formed his decision on the special principle for which he has been sent, is open yet on all other questions, and certainly will not blindly follow the behests of a powerful party leader.

Faddists and the Proportional Vote

Mr. Seddon stood up against a proportional voting system

on the ground that it would bring a number of faddists into the House. So it would, no doubt, but where is the harm? Faddists are men with one idea, of whom Prince Bismarck once said that he liked them, for they had one idea more than most men. The leader of the Liberal Party must not forget that all of the reform measures carried by him and his party in this country were considered fads not such a long time ago. But why should not every citizen have the right to send somebody to the House who represents his favourite idea, even if it were a fad? Is it less correct to vote on such ground than to vote for bridges and country roads? Who is the better citizen of the two—the one who forgets the interests of his pocket and votes for the men fighting for a great social reform, or he who has no other ideal than to save rates, and who gives his vote to the man who is likely to procure the greatest amount of Government patronage for his section of the country?

It may be inconvenient for the chief of a party to keep the reins of government if the loaves and fishes of which he is the distributor lose their charm for electors and elected, but it would only be so where the party chief lacks a noble enthusiasm which makes him forget everything else but the desire to obtain the greatest good for the greatest number. A party chief of this nature will rejoice in the nobler task set before him and the possibility of accomplishing it. Instead of employing his political arithmetic in the direction of figuring where his patronage of local bodies will tell most on the support he can obtain, he will investigate what great reform begins to command most votes, and he will work in this direction. Is it not worthy of his best efforts to fight for that reform of the electoral system which promises the possibility of such a change in electoral tactics?

It has been urged against this system—the proportional or effective vote—that

It favours the Rich,

who can get up an agitation in the large district which would be substituted for the present small constituency, to the exclusion of the poorer man, who is only canvassing in his own township, and cannot afford to work the larger district. The very

opposite is true. For the best men in the country, who have nothing to recommend them but their devotion to the people's highest interests, without financial means to back their candidature, it will be easier to obtain a seat under the new system than under the present one. A valid proof of this is supplied by the electoral statistics of Germany. The poor men's party, the Social Democratic party, polled over 2,100,000 votes at the last election, representing over one-quarter of the total vote cast, though they obtained only one-seventh of the representatives elected. If Germany had the proportional vote, there would be over one hundred social democrats in parliament. The increase might even exceed this estimate by a good number, because in some constituencies many voters of this party do not go to the poll at all, as they have not the least chance of obtaining a majority in the district. These men would vote if every single vote given in the whole country were effective, *i.e.*, obtained its proportional representation.

If it were merely a question of money, social democracy would be nowhere, and plutocracy would govern without hindrance; but fortunately not only money is power. After all, the appeal to the higher motives in man is a far greater force in the direction of human affairs if it can come out of its latency, if it meets the conditions that render it effective. These conditions are supplied by the proportional vote and the system of large constituencies.

Here is a man whose life is devoted to a great principle. He fights for it day and night; his powerful voice is heard all over the land, and his adherents are counted by the thousand. This is the very man whom you will never see in one of our present parliaments on the single constituency system. The men who can grasp his ideas are not so thickly scattered over the country that, though combined, they would be able to elect their leader, if the total of their votes were counted—they would have the shadow of a chance in any single constituency. Talk of wealth profiting, of poverty losing by the proportional vote! This man and his adherents are too poor, perhaps, to contest a single constituency against the wealthy land-owner who dominates in that section; they have so little influence in each separate constituency that even if they could collect money enough to pay for election expenses,

they would be at the bottom of the poll. The master-mind would succumb to a stupid local politician, whereas, under the P. V., without any expensive canvass, all his friends in the country would put his name foremost on their list and thus elect him.

Henry George would not have had the smallest prospect of being elected if he had been running for congress, in ninety-nine constituencies out of a hundred ; but under the proportional vote, he would have had " 1 " on all the ballots of his partisans in the country, and of many thousands besides, who, though not in everything of his opinion, were at least convinced that they voted for an honest, incorruptible man with wide views and an urgent desire for the public welfare. I am confident that in such a case no other Congress man would have polled so many votes as the first preference of the voters.

If I understand the matter rightly, the only change which Miss Spence has brought into the Hare System is a departure from Hare's plan to make the country one constituency, whereas she prefers smaller constituencies of half-a-dozen members or so. I decidedly believe that the change thus proposed is for the worse, and that the original and unadulterated Hare System is in every way preferable. The larger the constituency, the greater are the chances for minorities of being represented ; the more constituencies, the less hope there is for struggling progressive thought to find a representation in the council of the nation. Take the case of our New Zealand, for instance, with its 74 constituencies, and let us suppose that 148,000 were the total of votes cast at an election, which makes 2,000 votes the number electing a member. Now, let us suppose there were 80 socialists in each constituency. Under the present system they would not even dream of putting up candidates, as the 80 partisans in each district would not have the slightest hope of success. But even if the country were divided into 6 voting districts of 12 members each, they could not elect a single member, as their vote would nowhere exceed 1,000. If, on the other hand, the whole country formed one single constituency, they would send 3 members to the house. With constituencies of 6 members, even 250 votes in each district might not give them a single member ; while on the centralised plan they would obtain as many as 9 representatives, and by joining with

other progressives, might largely infuse legislation with socialistic principles.

I think what induced my old friend to thus improve backward an excellent plan, was the fear that the work of counting the ballots might be a little more complicated. I am not so sure of this, but there certainly need not be any more work for each voter than in the other case. He would simply pick the list he specially favours from the rest, and would vote for it by affixing the numbers according to his preference. Of course, each party would put more names on its list than it can hope to elect, to give a larger choice to the voters; but there will be so many different parties that no single list will be so voluminous as to entail too much work. Nor will it be necessary to number all names on the special list. It suffices to mark those specially preferred, while the others will be taken in the sequence in which they are printed if they should be needed. The case where men of other parties and lists will be added to a special list by the voter will be exceptional, and even then the additional work is almost nil.

Anyhow, the advantages of the larger constituency are so great that minor considerations must be relegated into the background. The larger the constituency, the more effective will be the vote of the people. The smaller the constituency, the more of the evils inherent in the present system are preserved.

The more effective we make the vote, the better do we obtain a true expression of the people's will. The new system will make elections tell a different tale from that of to-day; not money will profit then, but intellect and character. Principles, not men, will be elected, which means a back seat to that class of men called politicians who treat politics as a business—a lot of nobodies who all over the world bring parliamentarism into contempt. Only a party leader who himself belongs to this stamp will feel an instinctive horror of the new system. A leader capable of great thoughts, preferring to be the first among equals to being the master of servants, will welcome with all his heart the Effective Vote.

The bitterness of party strife will lose its venom, and the participation of the people in elections will be more general. Many who now abstain altogether from voting, because the

proposed candidates constitute to them a mere choice between evils, will interest themselves in the political contest when they have a chance to vote for men of their own choice. The power of the caucus will be greatly reduced where any number of men can club together and have their own list sent round; though, of course, a certain minimum of supporters might be demanded by the authorities before they undertake the distribution of the list at public expense.

Representation of Trades

Opinions and principles may not be the only rallying-points of the future voters. It is very likely that different trades-unions will send their own delegates—practical men who know better what the people want than the lawyers and journalists who constitute such an undue proportion of our existing parliaments. Doubtless a certain danger might still exist in this case that the interest of the community could be neglected for that of the trade; but even this would be preferable to bridge and road representation. Quite a different tone would govern the discussion of such parliaments, as every one can see who studies the business-like and concise addresses and discussions at the co-operative congresses of Great Britain, for instance. A co-operative congress does more business in one day than many a parliament does in a week, or month even.

Bye-Elections,

when a member resigns his seat, or dies, are unnecessary under the proportional vote, as the next unelected candidate on the same list would simply take the vacated place.

The proportional vote must not be confounded with

The "Scrutin de Liste,"

which also collects a number of single member constituencies into a large one of many members, a very objectionable method of doing away with the defect of the small constituency—that of inducing the subordination of the common to the local interest. It is a device of party politicians, because nothing strengthens more the autocratic power of the caucus of nominating candidates. Cases happen under this system that a candidate is strongly opposed—even by the majority of his own party—in

his own local district where he is known ; but is elected by an overwhelming majority because the other districts that vote the straight party ticket, not knowing the man, give him their votes. In fact, it could happen under this system that each single candidate on the list is rejected by the people among whom he lives, and yet the whole list passes with a large majority, because each district of the constituency, not knowing the candidates from the other districts, gives them an undivided vote, as the party leaders have nominated them. The defects of this system have been used with the ignorant to throw disfavour on the proportional vote, with which it has nothing in common but the throwing together of electoral districts; whereas the fact that under the P.V. each elector votes for only one candidate enables him to select whomsoever he prefers, and to leave out altogether those he does not know, thus preserving the advantages of the many-member electorate, without its drawbacks.

Plumping, or the Multiple Vote,

is an improvement on the *scrutin de liste*, through the faculty given to the voters to concentrate their votes on one or more candidates whom they prefer. It is the most primitive of proportional systems, as it wastes all those plumped votes which a candidate does not need. If Jones needs only 2,000 votes, while 5,000 are concentrated on him through plumping, 3,000 votes are absolutely lost ; while under the Hare system they are used for the man second on the list, and so forth, so that all the votes are in any case given for some party friend.

The Ballot

The secrecy of the ballot ought to be combined with the greatest convenience of the voter. I understand that in Queensland the vote can now be given by postal card. I do not know how they secure the secrecy, but can see no difficulty in this direction. Each voter might be supplied with a parcel of cards of different colours, each colour for a different election or referendum vote. The cards may be numbered ; but as no record is kept where each number was sent, a control of the vote by the officials would not be possible. The influencing of the voter cannot be avoided by the most

ingenious systems of secrecy ; but social reform would put an end to economic dependence, and at the same time would greatly raise the financial value of the vote for each shareholder in the State. No briber could afford to pay as much as the vote would transfer to him from the common pocket, for this would leave him no profit ; and no voter could afford to take less, or his loss on one side would otherwise exceed his profit on the other. You can afford to bribe one shareholder of a limited company to vote for something which is against his interest by paying him more than he loses ; but you cannot bribe all, for their loss as shareholders would either exceed their gain by the bribe or your profit would not reach the outlay. A well-known saying is : " You can fool some people all the time, and all the people some time, but you cannot fool all the people all the time." The greatest danger of the present system is the indifference of the voters, the majority of whom often do not go to the poll ; just as small shareholders in limited companies mostly do not attend at the general meetings, or do not even send proxies, unless somebody specially asks for them.

The administration of the people's land under land nationalisation, State banking, and organisation of distribution, perhaps also of production, are measures so deeply touching the self-interest of the voter that he will be as eager to be represented as the large shareholder is certain to look after his interests in the limited company.

With the best systems of voting, and the most general participation of the people at the elections, it is not possible to ensure an absolute certainty that the views of the voters are really faithfully represented. Leaving even the question of honesty apart, it is not to be supposed that one man will exactly hold the same views in every point as another, and generally the elector must be satisfied if his representative is at one with him on some important points, though he may diverge in others. An

Imperative Mandate

might obviate this inconvenience. Each representative could be made to deliver the votes of his mandators where he has not been given full liberty to vote as he pleases. The principal objections against this system—which caused its abandonment

after it was tried in the beginning of the French Revolution, when each representative arrived with his *cahier*, which directed his votes—no more exists. The general ignorance then was so great that no hope of reform could be entertained except by sending the most intelligent men to mutually enlighten each other. Binding the delegate beforehand meant simply renouncing every hope of arriving at any useful solution. This has entirely changed in our times. The free school system, the public meeting, the press, and the accessibility of literature have disseminated general enlightenment, and the representative is sent not so much to form his own opinions as to give vent to those already held by his electors. The cases where speeches in Parliament influence the votes have become more and more the exception. The party meeting decides beforehand how each member is to vote, and the speeches are usually made for the constituency, or for the people at large, without any hope of thereby effecting much in the house itself. A reader of recent parliamentary debates in New Zealand is often struck by the strange fact that bills are passed by a large majority after almost every speaker opposed them most strongly. The majority, certain of the result and not wishing to waste time, keeps silent, and lets the opposition do all the talking. Many members sit in the library, or chat in the lobbies, and just come in when a division takes place. The only change which an imperative mandate would bring into the system would be the substitution of the elector's mandate for that of the party meeting. It is therefore mere nonsense to consider such a mandate as derogatory to the dignity of the member, who feels no such scruple where he votes as the party dictates. There is still plenty of work to be done which requires the exercise of his personal intelligence, such as the wording of laws (the principles of which only have been decided for him), the perusal of the public accounts, the investigation of abuses, the control of the executive, etc. A lot of useless talk could be done away with if each elector's imperative mandate were registered at the beginning of every session, and debates avoided where a decision has already been arrived at by the majority of electors, or as soon as a majority is reached through additional votes sent to the chairman during the debate. Such votes may come through their representatives

from electors who have reserved their mandates, or from the representatives as far as they possess free mandates, *i.e.*, full power to vote as they please. In such a case, the debate would at once be closed. There are plenty of other possibilities to get rid of suppressed speeches without spending the people's time and money thereby!

However, there are great inconveniences connected with such a system, and another remedy against the despotism of the representative has been obtaining more popularity.

The direct Vote or the Referendum and the Initiative

This system was first adopted in Switzerland, where it takes the place of the old Germanic and also old Roman custom—as yet existing as the *Landsgemeinde* in some Swiss cantons, and in the New England town meetings—of having the people decide by their direct vote, in public meetings, what laws they want and what expenditures they authorise. The old system would not be applicable for the administration of a modern state, and after an adaptation of the old Roman *plebiscite* had been tried by the two Napoleons, the referendum—the referring of decisions to the approval or negation of the people's vote—has taken the place of the old *folk-mote*. The Swiss have two kinds of referendum, the *optional* (facultative) and the *obligatory*. The one is taken whenever a certain number of voters demand it; the other has to be taken before certain laws become valid, or before expenditure, beyond certain limits, is allowed. The right of the initiative enables a certain number of voters to propose a law to be decided by the referendum. It would be useless to deny that the referendum has not always given the best of results, if the results are judged by the most intelligent section of the community. A river cannot mount higher than its source, and a people will not dictate better laws than their understanding permits. The intellectual aristocracy, who think themselves fitted to educate the masses, believe they can best do so by passing progressive laws, even if these laws go beyond the people's wishes for the time. They feel sure that the masses will soon be educated up to the laws. It is the system of benevolent despotism, and it may have produced good results

in its time. The safest plan, however, and the only possible one under a real democracy, is to wait until the people are ripe for progress, instead of presuming to force on them the progressive measures in the expectation that these will accelerate the ripening process.

The Swiss progressives have long since learnt this, and they humbly bow to the will of the people, even where the best laws are rejected by them. So, for instance, the law for workers' insurance against disease and accident—the result of ten years' hard work—was passed by the two houses of the legislature; but when it was submitted to the popular verdict, May 20, 1900, the Swiss people refused it with 341,254 against 146,954 votes. The progressives certainly regretted the result; but, after all, is not such a state of things better than the spectacle offered to us in New Zealand—while I am writing these lines—of some new labour laws proposed by a section of the people, which may pass, in spite of strong protests from many sides; without any immediate remedy, even if it should turn out that the vast majority of the people are tired of this kind of legislation? A referendum vote would at once set the matter right, and would prove whether the majority really want such a law, or whether the will of an influential minority alone stood up for it.

I remember a law which had been passed by a three-quarter majority of the lower house of the Swiss Legislature, and almost unanimously by the other house, and which was rejected by a popular vote of over 90,000, which certainly proves that the representative does not always represent. The referendum is an urgently demanded reform which no really democratic country ought to be without.

Special Treatment of Land Laws

For constitutional changes, a vote of two-thirds of the people—of all entitled to vote; not only of those actually voting—ought to be demanded; and among such constitutional laws, not alterable without the consent of such an overwhelming majority, that which restores the land to the people ought to be placed. Perhaps in this case a three-quarter majority might be more advisable yet. In fact, from an ethical point of view, the people have no jurisdiction here; they have no authority to

give away the heirloom of unborn generations ; they have no right to re-create private land monopoly. Every new child born into the world could claim the right to nullify any enactment that deprives him of his full share in God's free gift to all. Under the same constitutional provision, any

Rebates of Rent

ought to be made impossible, except by the same referendum majority. To give away the rental of the people's land, or part of it, is equivalent to giving away the land itself. The scandalous event of the 1900 session of our New Zealand Parliament—the Premier coolly demanding authority to give rebates on the rent due to the State ; that is, to make presents to individuals from the community's property—shows the necessity of such a course. Under land nationalisation there will be no rack rent ; there is land enough for everyone, and no one will offer more rent than the land is worth, than others would be willing to pay in his stead. Giving any person a rebate on a contract entered into under such conditions is not only a robbery of the public at large, but also of those who were willing to pay the same rent, and who ought to be allowed to make a new bid in case the tenant sees fit to ask for a rebate. If they are still willing to pay the old rent in full, besides compensating the present tenant for his improvements, with what right can the Government let another have the land at lower prices ? Such favouritism ought not to be shown in a democracy whose first principle is equality for all its citizens ; and the power of granting such favours would corrupt the best Government in the world. I may use too strong language ; there may have been circumstances which attenuate what I consider an attempted crime ; but I am not the only one who looks at this proposal as one of the greatest outrages committed by any New Zealand Government. Anyhow, the Government rendered a great service to the country in forewarning it in time against the only danger of land nationalisation : the temptation put in the way of a large State tenantry to agitate for a change of their tenures into freeholds, or for other privileges, at the expense of the people at large. The precautions against such a possibility cannot be too stringent. (See also p. 82-3.)

Second Chambers

Second chambers are in very bad repute with democrats. My old friend, J. Morrison Davidson, than whom no better and sincerer democrat ever drew breath, makes out their bill in his "Politics for the People" (London, Reeves), especially that of the mother of second chambers, the British House of Lords, an anomaly and a dangerous one at that. Mr. Davidson has drawn up an ominous list of its sins against the people, in proof that it has opposed any kind of progress, and usually has only yielded out of craven fear. But its very origin must condemn it, for its authority is based on the foulest wrong ever committed against the people of England: the robbery of their land. Its only title is that of usurpation based upon usurpation. The lords first stole the people's land, and then founded their hereditary privilege of governing the country upon the possession of its soil. As the same author points out, the American senate was nothing but a servile copy of a bad precedent, and with its own goodish quota of sins in addition, especially in the matter of slavery. "Suffice it to say that, but for the existence of the American Second Chamber, the Republic would have been spared all the horrors of the Civil War, with its holocaust of 900,000 lives and its loss of £1,400,000,000 of treasure," is the summing up of the history of the Secession War by our friend. "Wherever two chambers exist, one must be master; and, unfortunately for the Western republic, the master is the plutocratic upper chamber. Hence Lord Salisbury's admiration for the American Senate in which the little State of Delaware is put on a footing of equality with that of New York, with more than thirty times its population."

It seems to me, however, my worthy friend goes too far when he concludes, from cases where the so-called upper chambers did not represent the people's will, through an unjust composition, that second chambers by themselves are a bad institution. Or if he adds to this conclusion that even if the second chamber represents the people as much as the other chamber, it simply supplies a needless repetition of the same vote. The latter argument is not quite unassailable, however, because two bodies, though of the same origin, may have different ideas

on some points. We have seen, when we discussed the referendum, that the representative does not always correctly represent the people's wishes, and two representatives elected by the same vote often differ on some points. The history of the French Convention, on the other side, ought to be a warning how beneficial some kind of control often would be; that the pendulum which forces the wheels of the clock to run steadily has its good uses. It is true that to a certain extent the referendum can undertake this control; but the referendum can only adopt or reject a law. Even where a number of voters make use of the initiative they cannot prepare the wording, but must leave this task to some committee; in which case it is better to have the committee elected by the whole people, and not by those who initiate the law. A second committee appointed to supervise the wording is also eminently useful, as experience has repeatedly shown. This second committee, the second chamber, may also in many cases save the trouble of recurring to the referendum.

But certainly it would be far better if a second chamber could be obtained which thoroughly represents popular opinion, without being a mere duplication of the other body. A different division of the electoral districts would not change the result under the proportional vote. Wealth should be as little a determining factor in the franchise for one chamber as for the other, especially in a country where common land ownership makes the whole people proprietors. Nor are nominations by the Government to be recommended; for the legislature ought to control the Government, and an administrator ought not to be allowed to appoint his own auditor.

Age Franchise for the Second Chamber

I think a good idea would be to limit the franchise of the second chamber to all citizens above a certain age, say forty. Not the passive franchise, as in Sparta's Gerontes (Council of the Aged), but the active franchise. Only the citizens beyond a certain age have the right to vote for the second chamber, but I see no objection to their choosing younger men if they wish to. Wherever younger men are elected by their elders, we may suppose that they possess a greater ripeness of judgment than

the average men of their age. Most of us who have lived a certain number of years on this globe are astonished to see, when we look back on our state of mind as it was in our youth, in what different aspects men and things appeared to us, how much we owe to our progress in time. There is a great difference in the judgment of the average man above forty and the average man below forty. They have a joke against a certain country in Germany—Württemberg¹—that the people there only become reasonable at forty. A cooler reflection on the consequences of certain measures, the outcome of temperament and experience, gives the riper men a decided superiority as critics, and thus they are eminently fitted for the task here allotted to them.

The Executive

Much could be said here about monarchy and republic, but I abstain. I am a republican, as every real democrat is supposed to be; but the difference between a constitutional monarchy and a republic is too insignificant to lose any time about the discussion of the distinguishing features.

Monarchy and Titles

I look at the constitutional monarch as a fetish whose presence in the machinery of the State will be found desirable as long as a majority of the people continue to believe in such fetishes. If there are persons who cannot get up a feeling of reverence in a place of worship unless the minister appears in a surplice, it would be decidedly ungracious on the part of those to whom the dress of the preacher is absolutely indifferent to deny the others their dress fetish. Nor can I see any objection against the ridiculous wigs and gowns of our law courts, if these external appurtenances have the effect of impressing the parties with greater respect for the authority of the law.

I am sure I think as little of titles and decorations as the most radical man living; but this does not prevent me from laughing at the zeal of some friends who get quite excited when

¹ I was not born there.

a democratic leader accepts a knighthood, talking as if he were a traitor to the cause of the people. It is true that the man would have done more good to the cause of democracy if, by his refusal, he had helped towards the final suppression of such worthless distinctions; but in general I look at such baubles as I do at high cylinder hats—which I do not wear myself, thinking them nearly the most ridiculous headgear that ever existed—yet if one of my friends chooses to make a guy of himself, I consider that is his business, not mine. I feel towards him as towards that lady who once boasted to me of being descended from a noble family, and who was very much surprised when I calmly assured her that this did not in the least subtract from the esteem I felt for her.

A monarchy like England is more republican, and certainly more democratic, than republican France, and the subjects of the kings of Norway are politically freer than the citizens of the South American republics. The question of expense does not count much either, for the expenses of the canvass for the last United States' presidential election, including the corruption fund, would probably pay for all the European civil lists during M'Kinley's term of office. A more important question is that of

The Cabinet.

In this field, constitutional monarchies have mostly followed the English precedent. We know that, nominally, the king still elects his councillors, as in the past, before the State was completely on what we call constitutional lines; but that, practically, a kind of party caucus, to which most of the party are not invited, puts the men forward whom the king chooses, though even here there have been exceptions. During the minority of Richard II., and at the commencement of the Commonwealth, the executive was elected by Parliament.

Elective Executives

The best system is the Swiss, where the Parliament appoints a committee which carries on the executive work of the Government, and which elects one of their number as their president

for the year. The two chambers meet together, and elect the seven members of the Federal Council for three years. The president is only the chairman of a board, nothing else. The system works to perfection, and yet there is an agitation towards a change in the constitution, so as to place the election of the Council into the hands of the people—changing the indirect election into a direct one. I am not at all sure that this would be an improvement, because it might put the self-appointed party caucus into the place of the caucus elected by the people, the Federal Assembly. It seems to me that, if the election is made on the proportional system by the same bodies who now elect it, nothing farther could be desired. In the canton of Tessin, where I spent a few years, the election of the local executive is thus made by the people at large. Formerly, when one party had exclusive hold of the Government, the most violent party strife poisoned the public life of the canton, even amounting to rebellion and the murder of one member of the Council, so that the advent of the Federal troops was required ; but now that both parties are represented in the Council according to their strength, everything goes on peacefully.

I know that Macaulay looked at party ministries as a great progress from the former mixed system, and attributes to it the comparatively regular course of public affairs. But the example of Switzerland, where all parties are represented in the Council, shows that the progress in England was due to other causes, which worked concurrently with the change mentioned. I am afraid the historian's conclusions are on the same line with those of free traders in regard to England's prosperity since the abolition of the Corn Laws, of which I spoke in a former chapter.

The Swiss system, with the addition of the Hare election method, would certainly work well in New Zealand. The best men of all parties would be found in the Cabinet, working together, each in the department he is best fitted for, with regular meetings where the general policy of the Government would be decided by a majority vote. The leaders of the different parties would become better acquainted with each other, and feelings of mutual esteem would take the place of present aversions. The president would only be a chairman, without any more power than the rest, except his casting vote. The boss system would be buried for ever. Let us hope that such a reform will come soon, and in our days !

CHAPTER XI

SOCIALISM

The Author's Evolution

IN 1890 I concluded "Rent, Interest, and Wages" with the following apostrophe to individualism: "Poor Individualism! Thou hast made one single mistake, but it was a deadly one. Thou hast forgotten that a free development of individual enterprise is only possible if the base of life and of effort, if mother earth, is freely open to all who want to exert their powers in the infinite store-room she offers to humanity. If it is yet possible, retrace thy steps; reform at the last hour by opening to all men the only field in which individual freedom can be exerted—land. If thou canst not take this decision very soon, farewell to thee, and welcome Socialism! Death is hard, and life is precious, even if it be life in a prison."

Twelve years have gone round since I penned these lines, twelve years of hard work in the field of economics and sociology. More and more I emancipated myself from the hypnotising influence of "Progress and Poverty"—a powerful influence indeed, as many thousands have similarly experienced—attributable not only to the beauty of the diction, but to the one-sidedness which the book shares with most products of deductive reasoning.

Not that there exists a strict demarcation line between

Deduction and Induction.

There can be no deduction without some facts which suggest it, while induction would lose its way in the labyrinth of facts if it did not follow some Ariadne clue which enables it to pick up its way. The distinction, therefore, is not one of kind, but one of degree. The reasoner who is so much dominated by his

theory that he either ignores disagreeing facts or involuntarily modifies them until they fit his mould belongs to the army of deductive philosophers. The auto-suggestion of his idea sometimes becomes so powerful that it reaches the strength of that professor's fanaticism who proclaimed: "So much the worse for the facts!" when these unpleasant knobbly things would not fit into his theories.

On the other hand, the careful grubber after facts often finds life too brief to assort what he has discovered; and should he accomplish some subordinate classifications, he never reaches a general principle. The Darwins who for thirty years withhold a grand generalisation, enunciating it only when they have found it corroborated by the vast majority of facts—they are few and far between. In them philosophy produces its highest incarnation, through the marriage of its two systems; they are the de-inductive reasoners.

Power of Auto-Suggestion

It is instructive to read in Henry George's biography, written by his son, how his attention was first drawn to the importance of the land question. "Absorbed in my own thoughts, I had driven the horse into the hills until he panted. Stopping for breath, I asked a passing teamster, for want of something better to say, what land was worth there. He pointed to some cows grazing off so far that they looked like mice, and said: 'I don't know exactly, but there is a man over there who will sell some land for a thousand dollars an acre.' Like a flash it came upon me that there was the reason of advancing poverty with advancing wealth. With the growth of population, land grows in value, and the men who work it must pay for the privilege. I turned back, amidst quiet thought, to the perception that then came to me, and has been with me ever since."

The deductive philosopher had found a great truth whose brilliancy blinded him from thenceforth to anything else lying around it, especially as his want of linguistic knowledge limited him to the comparatively narrow field of English-speaking countries. He wrote me from the steamer *Servia*, August 28, 1890, on occasion of a missed rendezvous with me in Italy: "My

dear Flürscheim, . . . We went through Europe almost like deaf and dumb people; but it was still very interesting. . . ." Wonders as he accomplished in the specialty once chosen, he could never see beyond it; nor could he easily recognise errors he had been led into. From Milan, on his return journey from Australia, he wrote: ". . . The Australian trip was a good and successful one, and our movement is in good shape there, though where it will come first into realisation I am yet undecided. You have many friends among our people in Australia, and a number of the active single-tax men are converts to your theory as to the death of interest. I am as far as ever from seeing it, and all my rumination strengthens the belief that you and they are in error; but the theoretical difference makes no practical difference between us."

This one-sidedness, this difficulty to liberate himself from ideas that had once taken possession of him, was counter-balanced by that wonderful concentration and auto-suggestion which rendered his books and his personal addresses so magnetic that he made the land question what it has been ever since: the battle-field on which no peace will reign until final victory has been won, until humanity has reconquered its patrimony. No wonder that such a truth could thus carry along a man of his worth, so that he could not see beyond it, when even one of his most devoted disciples, who had the best facilities to obtain the most varied experience in the field of economics, needed ten full years before some other very important features of the great social problem began to develop themselves before his mental vision.

The interest question and that of commercial depressions had been seen by me from another point of view than that of Henry George, before I wrote the passage with which I concluded "Rent, Interest and Wages"; but gradually I began also to observe the full significance of the currency problem. The great doings of co-operation then attracted my attention to the necessity of centralising distribution. The American trusts finally taught another important lesson. Free competition had gradually eventuated in the most extensive monopoly the world ever saw; subjection to a few plutocrats proved to be the latest phase of individualism. Compared with this individualism,

The Socialist Prison

which had alarmed me began to look like a paradise of freedom. But the outlook was wonderfully changed. I had climbed mountain after mountain, and, from the last summit, I now gazed with enchanted eyes upon a glorious prospect. I beheld the land belonging to the people, and let to individuals for a compensation—paid to the community—proportionate to the value of the temporary privilege enjoyed by the user. I saw a means of exchange—based on the products of labour, and accessible to each worker according to his requirements—free from the fetters of monopoly. I saw demon interest fallen a victim to the now unfettered productivity of labour, and at labour's disposal I saw untold wealth held for the mere cost of maintenance. I saw co-operation attending to the work of distribution and production, doing away with the waste inherent in the present system, and abolishing the war between profit maker and wage earner. I saw political reforms which—instead of merely substituting the subserviency to self-elected masters, so-called representatives, for subserviency to masters who were little worse, but who had more unpleasant names—made the people real masters of the State. Instead of the man glibly capable of electrifying large audiences while absolutely incapable of managing national affairs, I delighted to see the best man performing the work of administration. Then I wrote "The Real History of Money Island," presenting my dream as the outlook upon the true individualism of the future. But, to my amazement, I could not distinguish this individualism from socialism—from the socialism of the most advanced socialists. What had become of that tyrant, that prison-owner, the State, of whom I had been so much afraid?

A Different State

Intelligent socialists do not dream of ever giving such powers to the State as now organised, even in its most democratic form: the Republic with the proportional vote, the referendum and the initiative. They realise that a shoemaker knows more about the organisation of shoemaking than a lawyer, whose smart

loquacity has procured him a State office ; and the State they look forward to will find practical men well-versed in their special branches of work to organise and supervise their respective departments : a State composed of all trades, including farmers and the professions, centralised in unions to which every honest worker is to have free admission, and which organise and direct production in their several departments, electing a central governing body to attend to interests common to all, especially the fixing of wages and selling prices in the last resort. Such a central governing body would represent the whole of the community, and would certainly know better how to legislate in departments made familiar to them by lifelong training than the most experienced of our present parliamentarians. A system of this nature would at once give a significance to public administration of production and distribution quite different from the impression in the minds of those who cannot dissociate this idea from their experience of public bodies as at present constituted.

The closer I looked at the once so terrible socialism, the more I laughed at my former fears ; and I hope that when this chapter has drawn to a close the reader will share with me the relief due to a just recognition of the truth.

The Introduction of Socialism

Before I go into some of the arguments usually trotted out against socialism, I want to discuss the important point of its introduction, practically the only point on which I might disagree with many of our socialists. With them I am ready to look at socialism, or even communism, as the ideal of the future, the roof of the building ; but in opposition to most of them I think it will be safer and more conducive to good results if, while keeping before us the grand ultimatum, we unite all our forces to fight for the immediately attainable. Our present possibilities have been depicted in the preceding chapters. A victory on the lines there mapped out will launch the world upon full socialism before it is better aware of it than I was myself in regard to the progress I had made in my convictions.

Step by Step

There is a great deal of sound philosophy in the advice given by Henry George to American socialists: "We both want to reach the Pacific. You think that we shall only reach it at Yokohama, while I believe that we shall already be there at San Francisco. Well, all I have to say is: let us take the next train by the Pacific railroad and go to San Francisco—which is on your way, too. If you are right, I shall go on with you; and if I am right, you can save the trouble of going farther." Not a single one of the reforms advocated in the previous chapters is out of the direct line of socialism; and socialists might the more willingly help towards their attainment the more certain it appears that *through tickets* to their goal are not obtainable, and that nothing can be lost by *booking from station to station*.

At least, this is true for the socialists of Greater Britain. As far as I can estimate the trend of affairs, the progress there will be, as the political advance of the motherland has been, on the line of evolution. The evident headway made by the land nationalisation idea on the one side, and by co-operation on the other, together with the object-lessons partly already given and partly expected from the colonies—especially our New Zealand—secure to this section of Anglo-Saxondom the prospect of a gradual and peaceful advance to the desired end. The direct fight for socialism is absolutely hopeless here, and only likely to strengthen the reactionary elements that construct bugbears so as to impede advance.

In this process of evolution I feel sure that, before a decade is past, New Zealand will possess a rational currency—a reform sure to be precipitated by our necessities—and will have made great progress in the direction of land nationalisation, if it has not entirely obtained it. The victory is certain if all progressive men unite their forces. Such advancement would produce the most favourable effect, not only on the other colonies, but also on

The Motherland,

where everything seems ripe for an entirely new departure in political organisations. The true Liberals are gradually learning the lesson that the people begin to prefer downright Toryism to a false Liberalism—always ready with big and well-sounding words, but as reluctant as the most bigoted Tory to grant fundamental social reforms, especially land nationalisation. Liberalism once delivered from these Whig elements, once really progressive on social reform lines, will be victorious, and the people will stand behind their representatives. Woe to the House of Lords that then dares to obstruct the way!

In two directions Great Britain is well prepared: the centralisation of distribution and land nationalisation. In the one field, the co-operation societies, with their Wholesales and Co-operative Union, have done a noble work of organisation which only needs extension to the whole department of distribution, putting an end to the private trader.

In the other field, the prevailing system of land administration in Britain has smoothed the pathway for centralised State ownership. The British farmer, manufacturer, middleman, professional, live and work usually on other people's land, the rent of which flows into the pockets of a small number of landlords. The organisation now prevalent in regard to the administration of the land has taken such a hold on the thoughts and habits of the people that, as far as the land users at large are concerned, the direct difference—if the State chose to take over the land—would only be the substitution of one landlord for another. The same officials might continue to supervise land tenures. The former agents of the landlords might collect the rents for the State; so that nothing need to change except the name of the party for whom the collection takes place. The people as a body would be the landlords, instead of a few monopolists.

Revolution

I am sorry that, excepting Scandinavia and Switzerland, I cannot be as hopeful for the European Continent,

and for the United States. In Europe, the people have first to gain the political influence necessary to achieve their purpose against the opposition of monarchy and oligarchy.¹ In the United States a Conservative constitution affords numerous obstacles to any thorough reform; and a partial—perhaps, ere long, a complete—monopoly of production and distribution gives to the plutocracy such immense power of corruption and of control over life and death that a sanguinary revolution seems the only way left open. .

Such a prospect would be sadder if the hope could not be entertained that the worst dangers behind this method of progress, exemplified by the great French Revolution, in this case carry along with them their own remedy. In France, in 1789, the people were not prepared for the construction required after destruction had been effectively accomplished. Old historic France was pulled down, but the people had not the remotest idea what to erect in its place, and so, under another name, despotism revived; in fact, never was really moribund for a single day. Until recently, the people of the United States were just as unprepared for practical social reform. The method of confiscation, by means of a tax, unfortunately advocated by Henry George, injured the immediate prospects of land restoration in America as much as his propaganda otherwise furthered the cause. But during the last few years the outlook has entirely changed. What George did not accomplish in one direction has been attempted much more effectively by a number of powerful intellects in another. I do not mean the Bellamys, Gronlunds, Debbs, Herrons, etc. They certainly have done a great deal of good, but the real work has been performed by the Rockefellers, Carnegies, Pierpont Morgans, Schwabs, and other trust organisers.

¹ I shall never forget that socialist at one of my meetings in Germany who, when nothing further could be said against my arguments in favour of land nationalisation, asked me: "Mr. Flürscheim, you know very well that with the parties in power in this country land nationalisation by peaceful means has no prospect whatever of success. Now, if we have to use force, don't you think we had better take all?" It was the only question I could not meet, with the result that I finally decided to leave and to go where the soil is better prepared for peaceable evolutionary work.

Trusts

They have been much attacked, these trusts, and the late presidential candidate of the democratic party, Mr. Bryan, so little understood the trend of the times that he made the fight against the trusts one of the principal planks of his platform. I have to acknowledge that I, too, shared the blindness of the progressivists of the United States, and expected much good from his election. I think we were mistaken. M'Kinley's demon, Hanna, was the great banner-bearer of reform—like Mephisto in Goethe's *Faust*—"the spirit which always wants the bad, and brings forth the good." It would have been downright folly to disturb the best work done for humanity within the nineteen centuries which have wheeled round since the greatest Socialist's Sermon on the Mount was delivered—a work which, since M'Kinley's victory, has been lustily going on. The figures are growing so fast that, before this book appears, the 10 billion dollars capital mentioned in the following newspaper excerpt will no doubt have been far exceeded. The steel trust alone, which has arisen since the article was published, counts \$1,100,000,000 capital—water included. It took the place of Carnegie's steel trust, with the capital of \$250,000,000 mentioned.

"The moment a traveller lands in America he comes under the control of the Trust. The newsboys who boarded his incoming vessel, the telegraph office whence he cables his safe arrival, the baggage porters, and the cabs are all Trust controlled. His hotel is probably a 'free house,' but 75% of what he eats and drinks therein is Trust property. The Booth Trust, with its £1,000,000 capital, supplies the fish; the £11,000,000 Biscuit Trust bakes his biscuits; whilst the £4,000,000 Cigar Trust, and the £2,000,000 Match Trust, give him him his after-dinner smoke. The £30,000,000 Flour Trust provides his bread, the £4,000,000 United Fruit Trust his desert and vegetables, the £3,000,000 Dairy Trust his milk and butter; one of the two great Whisky Trusts, whose capital aggregates £36,000,000, provides his grog; the £15,000,000 Candy Trust, and the £25,000,000 Sugar Trust, supply him with all manner of sweet things; his feet sink into the luxurious wares of the £10,000,000 Carpet Trust; his journeys are made in the cars of the Pullman Trust,

which glide almost noiselessly over the rails supplied by the £50,000,000 Carnegie Steel Trust. In short, in a land which boasts an aggregate of £1,950,000,000 of Trust stock, it is not surprising to find that the grip of this octopus-like creature is upon every saleable object, from the baby's bottle to the centenarian's coffin."

The saving in the cost of production thus made is enormous. The tin trust alone is said to have forced 15,000 men into idleness; for, by concentration, their labour could be dispensed with. Schwab, the manager of the great steel trust, though getting \$800,000 salary, expects to save \$10,000,000 in the management. "Highly specialised as the different works were before, they will now become more specialised still; for each in future will only undertake that class of product which its natural conditions and plant capacity render it capable of turning out at the lowest possible cost. In every way, the trust is independent of outside manufacturing industry. It possesses its own mines, its own railways and steam shipping. Even to a certain extent it provides its own customers, since such parts of its organisation as the American Bridge Company, American Steel Wire, American Hoop, National Tube, and other users of foundry steel comprised within the organisation, will take up a considerable portion of the main production." The number of commercial travellers and salesmen dismissed in consequence of trusts is quite enormous, and yet only a beginning is made. The time will probably come when all the trusts of the country will unite, or, at the least, will have one central office attending to common affairs, especially in the department of distribution. Why feed millions of useless middlemen? Why not have central department stores in every township—on the plans of the Whiteleys, Wanamakers, Jaluzots, etc.—in which the products of the trusts will be sold, to the exclusion of all other middlemen? The latter will be easily killed off by the old dodge of the monopolists, the refusal to supply outsiders with goods, and by underselling them until they are ruined if they buy elsewhere. The majority of the workers and middlemen of all sorts now employed in production as well as in distribution will then be on the pavement—a very large number already are—and the yearly profits of the trust owners will amount to untold figures.

Of course, the purchasing power of all these workers and middlemen will be gone, and there will be a decrease in the domestic sales, as the rich monopolists cannot even begin to exhaust their share. But what of that? The high prices obtained at home will pay for all general expenses, and the surplus can then be manufactured so cheaply that it will be easy to undersell the world, and thus get rid in foreign markets of what is not saleable at home. The workers of these countries will suffer? "Certainly; but that is not our business," say the trust magnates. "Let us only hope that they will not quite desert the shrine of St. Cobden, an evangelist whose gospel is more or less followed still, even in protectionist countries, which nowhere as yet have dared to draw the last consequences of a protective policy."

After this invaluable service has been performed by the great organisers, the time will have come for the definite recognition that the trusts own the country and its inhabitants, and that national salvation lies in reversing the relation by

The People's taking Possession of the Trusts.

Such an expropriation may be carried out by peaceful methods. The great captains of industry, who, within a few years, have done a work which the kind of men usually brought to the top by universal or any other kind of suffrage could not have perfected in centuries, may see that, after all, a man can wear only one suit of clothes at a time, and can eat only from three to five meals a day. Then they may admit that the salary, or pension, which the people willingly proffer for the wonderful organising work they have performed for the socialist State would amply provide them with all the necessities and luxuries they can possibly enjoy; while the pleasure of living among a happy and thankful people, and the gratitude of a posterity which will revere their names above those of the great political leaders, certainly would exceed any happiness accruing from flunkeyism. They may see this, and thus at the eleventh hour a peaceful evolution may yet be attained; but I fear that the lust of power and the dictates of ambition and vanity will predominate. Another anti-slavery war will probably be fought; not between two geographical sections as before, but

between horizontal ones—a conflict between the upper and lower social strata. Anyhow, things cannot go on for long as they do. Increasing productive power without a corresponding consumption results in scarcity of employment and ruin. Only where the masses, as trust owners, are allowed to consume what they produce can that be deemed a blessing which otherwise is an unmitigated curse.

In Chapter IX. I have sketched the methods by which the people could accomplish the same result through co-operation ; but victory on such lines is hardly to be hoped for.

Precedents in the Domain of Political Union

do not point that way. Almost without any exception, nations have been forged into homogeneity by powerful despots. To these kings, emperors, tsars, or whatever title they assumed, was such work allotted by Omnipotence, and only after the work is performed, after the warring tribes have been welded into a nation, the time comes when this nation is ready to thank its founder or his successors for the great service rendered, and to proffer them handsome retiring pensions. Unfortunately, they are generally too arrogant to accept such terms ; and, as a rule, much blood has to flow before the business is concluded.

God's ways often appear incomprehensible to human understanding. History's pages reek with cruel deeds of violence ; and only when, from some lofty pinnacle of time, we look back upon age-long experiences, can we discern the wonderful plan underlying the whole hitherto inexplicable scheme. The growth of

The Russian Empire,

for instance, has certainly not followed humanitarian lines, nor is the despotism of one irresponsible head the form of government free human beings should judge most desirable ; but let us recollect the period when hundreds of little khans, kings, and sultans tyrannised over that immense area, killing each other's subjects, driving away their cattle and destroying their crops. They were more dreadful despots in their little principalities than any one of the Peters, Ivans, Pauls, Alexanders, and Nicolases. Now there is one despot, but he allows no other

despot's competition. *Pax Romana* reigns over immense parts of the earth's surface where strife and murder were supreme.

The Despotism of Socialism

Whatever be the gate through which victorious socialism will make its entry—whether through the foundation of a state within the state, through either co-operation or trust centralisation, until co-operation has conquered the state, or until the trusts have been annexed by it—one fear of individualists will prove groundless : that of despotism.

It is not the least amusing among the many vagaries of the strange transitory period through which we are passing that it is usually the despot, and those belonging to his coterie, who paint with vivid colours the despotism to be expected from the socialist state. It is not the poor factory worker or agricultural labourer working as hard as a slave, and with the submission of one, who trots out this bugbear; but the employer, to whom present conditions have given powers resembling those of the slave-driver. Or the landlord and capitalist, who, without responsibility of ownership, own their miserable tenants and debtors as thoroughly as if they were mere chattels. Or those who in books and newspapers take up the cudgels for capital. But more of this anon. I first wish to point out that there will not be the least need for the socialist state to extend her undertakings beyond distribution, transportation, communication, and the production of the necessities of life—leaving the production of luxuries to free competition. The painter of portraits and landscapes may be as severely left alone as the performer on the 'cello or the writer of a novel. But even in other branches of production full liberty might be granted. Let them compete, if they can, after the land belongs to the State, and after the means of exchange is accessible to everybody, and after the victory of co-operation in all its forms. There will not be much to fear.

Nobody forces us to take the railroad or to make use of the post office. We have the most unlimited privilege to walk and to send messengers, but the fact that anybody performs distant land journeys on foot or by any conveyance but the railroad has become more and more exceptional; while not one man in a hundred ever sends a messenger beyond the distance of a few

miles where the post office performs the same service for a penny. Under such conditions, there is no reason why seemingly irreconcilable parties might not work together after all. Even the most extreme communist does not like to sacrifice the liberty of the individual to work as he pleases, but he prefers dependence to the freedom of starving. A comfortable and certain living as a little wheel in a large machine seems to him preferable to uncertainty of employment as the price of independence—if we can call by this name the present state of things which forces him to become a part of a private machine. Hunger and cold, which now force him to undertake the most repulsive work, are more efficient means of coercion than the whole police force of the socialist state. Is it astonishing that under such circumstances he does not share the aversion in which the well-to-do hold communism? An aversion readily understood in the case of men to whom a comfortable position gives a certain amount of independence from which they are loth to part. For the very sake of this independence, however, the classes may be counselled to look at the question for once from the point of view of the masses, of the poor and down-trodden, who form the majority, and whose will must finally prevail.

Lord Gobbleland and the Communist

Does Lord Gobbleland really believe that his railings against those miserable agitators who want to make all men slaves of an almighty state have any chance of prevailing against the theories of one of these same agitators who is holding forth in yonder public-house to an audience of agricultural labourers? "They tell you," the man is just saying, "that under communism you would be slaves. Well, what are you now? You work from sunrise till sundown as hard as you can, and you certainly will not work harder under communism. You have to obey uncomplainingly, or you will be without bread; and nothing worse could befall you under communism. But you now get 12 shillings a-week, just enough to keep you and yours from dying of starvation, with the poor-house as your only outlook in old age; whereas, under communism, when everybody will work as much as you, when all will work much less and with incomparably better conditions, you will get at least as much

food, clothing, and pleasant shelter as the most fastidious of you will require, with comfortable provision for old age or sickness, besides the privilege of electing your overseer. Is that such terrible slavery?"

What will his lordship answer to this? Will he appeal to statistics to disprove the mere possibility of ever seeing such promises fulfilled? Statistics are against him; for a division of the actual wealth production of Great Britain would give something like £150 a-year to each family; and £3 a-week would appear Golconda to the poor agricultural labourer with his 12 shillings wages whom the agitator is addressing. And the man will not stop even at that, but will tell his audience that if everybody, including his lordship, had to work for a living, and if there were no unemployed, but all were producing wealth with the best machinery, and distributing the goods by the best methods, the £3 could easily be raised to £20 a-week, to £1,000 a-year. But suppose that statistics of any kind will not produce much effect on such a public, will they not at once understand the question: "Men, would you be better off or worse off if you could keep as your property all the wheat you are sowing and reaping with your hands, all the sheep you are tending (wool and everything), the cows you are milking; if you were allowed to burn your own bricks and build your own houses on free land?" Does his lordship believe for one moment that he could ever change the conviction of the men that such a state of things, however it were brought about, would be infinitely preferable to the existing one?

No, my dear Lord Gobbleland, there is but one chance for you to escape from this hated communism, and that is: to lend your help to bring about conditions which will make free individualism as palatable to your dependents as it is to you. Only a fundamental social reform can do that, and parting with your broad acres will certainly be one of its principal features.

We have seen in the preceding chapters that this can be accomplished without communism. If it could not be done, I should decidedly share

John Stuart Mill's Opinion

expressed in his "Principles of Political Economy" (Book II. Chap. I., par. 3): "If, therefore, the choice were to be made between communism with all its chances, and the present state of society with all its sufferings and injustices; if the institution of private property necessarily carried with it, as a consequence, that the produce of labour should be apportioned as we now see it, almost in an inverse ratio to the labour—the largest portions to those who have never worked at all, the next largest to those whose work is almost nominal; and so, in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life; if this or communism were the alternative, all the difficulties, great or small, of communism would be but as dust in the balance." And farther on:

"The Restraints of Communism would be Freedom in Comparison

with the present condition of the majority of the human race. The generality of labourers in this and most other countries have as little choice of occupation or freedom of locomotion, are practically as dependent on fixed rules and on the will of others, as they could be under any system short of actual slavery."

The extraordinary division of labour introduced into all branches of production has made each worker a mere wheel in a gigantic machine, a fact not at all affected by the system of enrolling the managers of the machine. Certainly no one can truly believe that the transfer of this management to men elected by the workers would result in less liberty than our existing method of government by absolute self-elected masters, whose decision allows no appeal, who at any time can deprive the worker of employment; can even, where trusts or black-lists exist, altogether cut him off from any chance of earning his bread by the work he has been brought up to. How little, after all, coalitions of workers can accomplish where they are faced by a union of employers, experience has repeatedly

shown—as, for instance, in the great English engineers' strike. Where trusts dominate over a whole department of production, the chances of trades' unions are certainly still further minimised, as has just now been proved by the failure of the American steelworkers' strike. In considering this question, the upper classes are only too inclined to forget that for the masses there is no really free competition even now. As a general thing, the difficulty of finding another billet makes our employees more dependent than they ever could be under a socialist *régime*, which would at least allow their votes to influence the election of the manager. But, through the trusts, even the employers are one by one losing their independence. Not to follow the mandates of the Rockefellers, Carnegies, etc., spells ruin. The independent employer becomes the official of the trust, and is forced to obey orders just as strictly as the public employee in the socialist state. Even when not absorbed by the trust, he is dependent on the ever more exacting and less certain customer, and his position has become so precarious and unpleasant that the main endeavour of our sons is to find a good billet in the public service—which, however, does not prevent the same parties from declaiming against the absence of liberty in the socialist state. It would be difficult for them to prove why the employee of a state which provides work for everybody has less liberty than the State official of our day, whose billet is longed for by a number of competitors, anxiously anticipating the moment when his trembling hands shall lose their hold, with consequent subserviency to superiors. So we see that even the despotic communism put before us in such books as "Pictures of the Future" of Eugen Richter cannot be so very repellent to the masses, because it can hardly restrict any liberty of practical value, while it would at least ensure them a permanent competency. That this actually would be the case, and that the bogey of famines and general misery put forth by Richter exists only in the fancy of such blind leaders of the Manchester school, needs no proof after the calculation referred to in Chapter I., which shows that one single hour given daily by all who are capable of work—under a systematic organisation, without any waste—would provide all with the necessities of life. An hour's work ought to be got out of every man and

woman, without any compulsion other than that of sheer tedium. Many of our well-to-do people devote part of their time to pleasures which demand greater exertions than most employments of paid workers, such as : mountaineering, hunting, deer stalking, rowing, yachting, cricket and football, coaching, etc., etc. This proves that work of some kind is imperiously demanded by our nature.

But abler pens than mine have often enough shown up in their real light objections of this kind, which, however justified they might be when looked at by the citizen of an ideal state such as never existed, are certainly worthless as regards the actual world in which we live. Here the one stereotype answer can be given to all such detractors of socialism and its possible results. "And to-day? Are things not much worse?" When the disheartening picture of

General Sameness

is unrolled before us—of barracks for homes, uniforms for garments, messes; and even State-regulated amusements, ridiculous fancies though they are—let us ask the poor proletarian whether he would not prefer even this mode of living to the one he is used to. Barracks are better than slums, uniforms are preferable to rags, the mess is decidedly pleasanter than a private table around which the children vainly cry for bread, and even public entertainments are preferable to a private lack of amusements.

Prison preferred

The following harrowing incident, which happened in beautiful Apulia, is related by Mr. Edward C. Strutt in the *Monthly Review*, under the title, "Famine, and its Causes in Italy":

"Three young women from Allisto were brought before the Prætor of Ugento, charged with stealing olives on an estate belonging to the municipality. The pinched and starving features of the defendants, the eldest of whom was barely twenty-five, their ragged clothes, and their half-hopeful, half-despairing expression, excited the sympathy and pity of the kind-hearted magistrate, who, though unable to acquit them, sentenced them to the minimum penalty—viz., three days.

Then a tragic scene took place. Bursting into tears, the prisoners flung themselves at the magistrate's feet, imploring him to give them the shelter of the prison for at least three months. With the touching ingenuousness of children, they told how the theft had been a preconcerted affair in order to escape the terrors which the winter (a particularly bitter one this year) held in store for them, and how they had even consulted a lawyer, who had planned the whole scheme, assuring them that, according to the Penal Code, they would be sentenced to three months, at the very least. And now the poor girls saw their dream of prison paradise, with its bed and blankets, and daily soup and bread, and meat twice a-week—a princely fare—vanishing like a mirage before them just as they thought themselves on the point of entering the blessed portals."

People who regard the jail as an Eden from which they are debarred, will not be inspired by that horror for Richter's barracks and messes with which well-fed, well-dressed, and well-housed gentlemen regard such accommodations.

Though the limitations of the second-class may appear unpleasant to cabin passengers, to the man from the steerage they will seem paradise. And Richter & Company seem not to remember that the immense majority of passengers in

The Ship of State

travel in the steerage, and not in the saloon. Do not let us forget also that this immense majority own the ship, and that they will not be for ever deterred from taking possession by the contention that it is impossible to give them all first-class cabins. They will reply, not without justice, that they do not claim cabins like the present first-class compartments; that an equal partitioning of the ship into a number of well-furnished cabins, with one good table for all, would certainly improve their position, however it might affect that of the present first-class passengers. Nor can they be frightened by the prospect of their subordination under the orders of the ship's officers; for though these officers may not drink champagne with them as they now do with the saloon passengers, they certainly will be politer towards men who are the recognised owners the ship than they often are towards poor steerage folk.

Incentive to Exertion gone

Or what effect can be produced upon the poor proletarian when you tell him that communism would stifle the inducement to exertion because profit is no more obtainable, and that without this incentive progress will be arrested? He will answer like the servant immortalised by the German humourist, Fritz Reuter. The man called his master to account because of the insufficient and poor food he was getting, and the master defended himself by asking the Court whether beef and plums is not an excellent dish. The man replied: "Certainly, beef and plums is an excellent dish; but, gentlemen, I never get it." Let us admit, for argument's sake, that our wonderful progress in the arts of production and distribution has been brought about by the desire to gain.

What has this Progress done for the Masses of our Population?

Statisticians of weight, such as Thorold Roger, Beissel, Janssen, prove that their well-being is less than it was in the fourteenth century. They show that the average wage worker of our time cannot purchase as many necessities of life as he could five hundred years ago, when production was yet in its infancy. It is true there are more recent periods that would give a relatively favourable aspect to our time; and optimistic statisticians of the Giffen and Atkinson type generally take such periods as standards of comparison. They quite ignore those statistics just referred to, which present the somewhat hard nut to crack: In those more remote times when the productivity of labour was not one-tenth as great as ours, why was the purchasing power of wages higher, and why were the workers comparatively well off? They pick out the worst times labour ever went through, and from the top of this refuse-heap they flap their wings, and crow lustily: "Workers, see how much better off you are; stop complaining, and things will improve still more!"

In his "Problems of Poverty," John A. Hobson gives them this answer: "The period between 1770 and 1840 was the most

miserable epoch in the history of the English working classes. Much of the gain must be rightly regarded rather as a recovery from sickness than a growth in normal health. If the decade 1730-40, for example, were to be taken instead, the progress of wage earners, especially in Southern England, would be by no means as obvious. The Southern agricultural labourers, and the whole body of the skilled workers, were probably in most respects as well off a century and a half ago as they are to-day. . . . Although a sovereign will buy more for a rich man than fifty years ago, it will buy less for a poor man. The prices of most of the comforts and luxuries of life have fallen considerably; but the prices of most of the necessities of life have risen. The man with an income of £500 a-year finds he can buy more with that sum than he could half a century ago; for almost all manufactures and imported articles have fallen in price. But a family living on 20/- a-week spends a small fraction of their income on such goods. The prices which most concern them are the prices of shelter, of bread, fish, meat, groceries, vegetables, dairy produce, etc. Bread, sugar, tea, cloth is cheaper (see 'Life and Labour,' by Booth, to see how little on the latter the very poor spend). Rent 150% higher, vegetables, milk, eggs, butter, cheese, coals, meat, oil, etc., are dearer; 20% is to be knocked off money value of wages to find real rise."

What can it benefit the worker if he can buy cheaper carpets, objects of art, and other luxuries which are mostly only attainable by the wealthy? They are beef and plums to him. What would be of infinitely greater value to him than all these luxuries is

The Certainty of always finding Employment;

and this existed in a much higher degree in those distant days than in our over-production shrieking times. This question of permanent employment is very often lost sight of when wages of different periods are compared.¹ The weekly wage may have

¹ The full dinner pail was the party emblem flaunted by republican papers of the United States during the last presidential campaign—in evidence of the "prosperity" conferred by the existing régime. This reminds one of the "Panem-et circenses" of the Roman Empire in its decline. Even if it were

risen, and yet the yearly income may have decreased ; 30 weeks at 30 shillings wages yield a smaller income than 52 weeks at only 20 shillings.

Then there is the working time, in regard to which we certainly are not ahead of the past. Eduard Sacher, in "*Die Gesellschaftskunde als Naturwissenschaft*" tells us (p. 277) that in the eleventh century the working time in mines was only 4 hours. Thorold Roger believes that in the fifteenth century the average working day in England was 8 hours only.

But even if all this were disputed, I am sure that the most optimistic statistician will not pretend that incomes and purchasing power of the masses have kept pace with the productivity of labour. The productivity of labour—after taking into account the labour spent on the building of the necessary machinery—has increased at least ten-fold within the last 500 years. Therefore, if instead of earning less, workers (in-

true that the dominion of the monopolists had brought prosperity to the working man, how low must the party of an Abraham Lincoln have fallen to know no higher and more effective appeal than that to the stomach? If, at least, there were truth in the contention ; but to all appearances, even in this "prosperous" time the number of unemployed is larger than ever before.

The report of the New York State Bureau of Labour Statistics for the last three months of 1899 states that the number of working men unemployed during that period was larger than in any other quarter of the year. It further shows that, during the last three years—a period of "prosperity"—over 20% of the working people in that State have been without employment.

Nor does the "prosperity" wave seem to roll on Lake Michigan, as an advertisement of "skin for grafting" at 2 dollars per person brought sixty-two applicants as soon as the paper was on the street, all of whom were moneyless, and ready to do anything for bread. All the skin needed was obtained from one man's arm, several becoming importunate, and one said : "I cannot even sell my flesh for food." That was in Chicago.

Australasia is another section of the world that ought to have room for more workers, and yet read the following, taken in 1900 from the *New Zealand Herald* : "There are 5,000 applicants for billets in the New Zealand Railway Department. Here is the state of things in Victoria. For 387 vacancies in the Railway Department there are—how many applications, can you imagine? No fewer than 12,000 ! The rush to Bendigo was scarcely a circumstance to it. Wages from £1 to £3 a-week—possibly £3 10s. at the most. Just fancy ! It has taken an army of clerks to open the letters and note the particulars of each applicant. The greater part of the applicants

cluding intellectual workers, who, relatively, are most under-paid) had to-day twice the purchasing power of that distant period—and the most optimistic statisticians dare not go beyond this—they would only obtain one-fifth of what they would receive if productive power were taken as a measure. I say “productive power,” potential production, not actual production. I maintain that without working any longer hours or harder, they could have at least a five-fold income, if all waste of power, through forced idleness of millions, deficient organisation of production, militarism, flunkeydom, etc., were stopped; if everybody were employed on the best method available, with the best of machines obtainable. If, however, the waste through superfluous middlemen, were stopped, and if the part taken by rent and interest were restituted, we might easily multiply five with three, and come to a fifteen-fold increase of wages. I have already shown that, on the other side, it is precisely to the lack of sufficient purchasing power

are country lads—a reflection on our vaunted productive industries. In 1897, for almost a similar number of vacancies, the applicants were less than 2,500. What accounts for the immense increase it is impossible to divine. Both wheat-growing and dairying are brighter now than then. Yet the fact remains that 12,000 of the youth of the colony are eager to get a billet in one of the poorest branches of the Civil Service. Surely there cannot be any more possible candidates.”

Or this from a West Australian paper: “A man in want of work called, among other places, at an iron foundry on the bank of the Swan, and asked for a job, but was told there was no vacancy. A day or two afterwards he saw the body of a man being dragged out of the river, and was told it was one of the hands of So-and-So’s foundry. Off he rushed to the manager, and again asked for a job, and was told there was no vacancy. ‘But,’ said he, ‘one of your men is drowned. I have just seen his body taken out of the river.’ ‘You are too late,’ replied the manager. ‘A man who saw him fall has got the job.’”

The West Australian story is doubtless a mere sarcastic commentary, but it is significant because of the every-day experiences which give it an air of actuality. If the incident has not happened in Westralia, it might have happened anywhere. That the story is brought out in a country so thinly peopled that its natural resources could enable a population at least thirty times as large as it possesses to produce by their labour the necessaries and luxuries of life makes it as fit to illustrate the employment problem as books filled with statistics. For those, however, who prefer the latter, I cannot recommend more instructive reading than the volumes of “Life and Labour of the People,” by Charles Booth.

of the masses that we have to attribute the want of employment and the waste in all departments. But the contention that

Gain is the main Stimulant to work

is not even based on fact as far as the best work the world ever obtained is concerned. In his "Merrie England," Robert Blatchford points to the lives of men like Galileo, Bruno, Newton, and indeed the bulk of the explorers, scientists, philosophers and martyrs; who were not forced onward by the incentive of gain but by the love of truth, of science, of art, or of fame. And He who laid down His life on Calvary to accomplish the best work ever done for humanity—did He work for pay, for wages, or dividends?

In a communistic commonwealth everyone would have to give a day or a couple of days a week to productive labour, so that men all round would be able to devote more time to intellectual pursuits than is now possible. Were they relieved of solicitude as to bread, the motives just mentioned would stimulate them to the highest excellence and productivity. The most celebrated Talmudists gained their food by humble craft; their wisdom was not sold for money. Spinoza made a living by grinding optical glasses, and refused to consider the elector of the Palatinate's offer to pay him for his intellectual work with a professorial chair at Heidelberg, preferring to give the fruits of his studies, his philosophy, free to the world. Does the soldier offer his life for the few pennies pay? Is it for the love of gain that he rushes on the enemy's entrenchments with certain death in view? Do we see a Milton write his "Paradise Lost" for pounds, shillings and pence? Is a Florence Nightingale sacrificing her health in the field hospitals for wages? Did Cavour and Bismarck work for the unification of their countries on piece work, or on a salary? Or, in case the objection were made that pay was actually given in those cases, let us ask whether Garibaldi went to conquer Sicily for the sake of booty, or whether Mazzini was driven into exile by a business speculation?

Carlyle never wrote nobler words than these, in "Past and Present": "My brother, the brave man has to give his life

away. Give it, I advise thee—thou dost not expect to sell thy Life in an adequate manner! What price, for example, would content thee? The just price of thy Life to thee—why, God's entire Creation to thyself, the whole Universe of Space, the whole Eternity of Time, and what they hold; that is the price which would content thee; that, and if thou wilt be candid, nothing short of that! It is all; and for it thou wouldst have all. Thou art an unreasonable mortal—or rather thou art a poor *infinite* mortal, who, in thy narrow clay-prison here, *seemest* so unreasonable! Thou wilt never sell thy Life, or any part of thy Life, in a satisfactory manner. Give it like a royal heart, let the price be Nothing; thou *hast* then in a certain sense got All for it! The heroic man—and is not every man, God be thanked, a potential hero?—has to do so, in all times and circumstances. In the most heroic age, as in the most unheroic, he will have to say, as Burns said proudly and humbly of his little Scotch Songs, little dew-drops of Celestial Melody in an age when so much was unmelodious: 'By Heaven, they shall either be invaluable or of no value—I do not need your guineas for them!' It is an element which, should and must, enter deeply into all settlements of wages here below. They never will be 'satisfactory' otherwise; they cannot, O Mammon Gospel, they never can! Money for my little piece of work 'to the extent that will allow me to keep working'; yes, this—unless you mean that I shall go my ways *before* the work is all taken out of me; but as to 'wages'!—!—"

There will be fewer

Loafers and Lazy Vagabonds

than in our time. In Rossi's report of a Brazilian anarchist colony's doings he specially mentions that the members worked too hard, because each felt himself under the watchful eye of his co-workers.

Such fears of loafing often are expressed by people who never did an honest day's work in their life. The daughter of a squire advanced, in answer to one of my addresses, that the old "Mark" was broken up by the lazy fellows who would not

work. I simply drew her attention to the amount of labour done by England's landlords. I might have told her the story of the American who had asked an Englishman, whose objection against America was that it had no gentlemen, what he meant by "gentlemen." "Aw, aw, men who do nothing, you know!" "Oh," said the Yankee, "we have got them; only we call them tramps!"

Unpleasant Work

We are also told that in the communistic commonwealth some will have to perform unpleasant work, that all cannot enjoy certain delicacies, or live in favoured locations. We might ask whether—in our world—everyone is exempt from unpleasant work, and whether all kinds of enjoyments are accessible to any who desire them? But socialism is not communism, and though communism would certainly not make things worse in this respect than they are, socialism would decidedly improve them. Those who do the unpleasant work would get better pay and work shorter hours, while pleasanter employment would be less remunerated. While to-day some bank managers receive, perhaps, fifty times as much pay as the man who cleans our sewers, it might happen in the socialist state that the latter finds himself the better paid man, who could afford to purchase the costliest enjoyments and to live in the most expensive localities. But, no doubt most of the dirty and unhealthy work would be done by machines, or under better protection against danger, and far less human labour would be employed for such purposes than in our time. The argument that work which presupposes a high education has to be paid better, to cover the outlay thus incurred, would lose its force where education and maintenance of the student are paid for by the State. I should not have touched this simple matter if it were not for the fact that it is just this subject which disturbs the mind of more would-be socialists than any others of far more weight. For this reason, Robert Blatchford devoted some of his most amusing lines to it in "Merrie England";

"Under Socialism : Who will do the disagreeable Work? Who will do the Scavenging?"

"This question is an old friend of mine, and I have come to entertain for it a tender affection. I have seldom heard an argument or read an adverse letter or speech against the claims of justice in social matters, but our friend the scavenger played a prominent part therein. Truly, the scavenger is a most important person, yet one would not imagine him to be the keystone of European society—at least, his appearance and his wages would not justify such an assumption. But I begin to believe that the fear of the scavenger is really the source and fountain-head, the life, and blood, and breath of all conservatism. Good old scavenger! His ash-pan is the bulwark of capitalism, and his besom the standard around which rally the pride, and the culture, and the opulence of society. And he never knew it; he does not know it now. If he did, he would strike for another penny a-day. We have heard a good deal more or less clumsy ridicule at the expense of the socialists. We have heard learned and practical men laugh them to scorn; we have seen their claims, and their desires, and their theories held up to derision. But can any man imagine a sight more contemptible or more preposterous than that of a civilised and wealthy nation coming to a halt in its march of progress, for fear of disturbing the minds of the scavengers?"

"Shades of Cromwell, of Langton, of Washington, and of Hampden! Imagine the noble lord at the head of the British Government awing a truculent and radical Parliament into silence by thundering out the terrible menace: 'Touch the dustman, and you destroy the Empire!' Yet when the noble lord talks about 'tampering with the law of political economy,' and 'opening the flood-gates of anarchy,' it is really the scavenger that is in his mind, although the noble lord may not think so himself—noble lords not being always very clear in their reasonings. For just as Mrs. Partington sought to drive back the ocean with a mop, so does the Conservative hope to drive back the sea of progress with the scavenger's broom."

After all, everything depends on the degree of social recognition bestowed on occupation, and if scavengers are as much

thought of under socialism as other tradesmen, there is no reason why many should not prefer scavenging to certain other occupations which are much sought after at present. The knacker's work is still more unpleasant than the scavenger's and yet not more unpleasant than that of the anatomist, with the only difference that the latter's business requires a lot of brain exertion, which the knacker's does not. Now, on the same school benches we find boys, who would rather do this unsavoury work without racking their brains in addition, sitting side by side of others who delight in intellectual exercise. The ones will rather be knackers; the others anatomists. For pay, the hangman and the officer kill, in the State's employ; the one in perfect safety, the other at the risk of his life. But are there not plenty of Falstaffs who prefer to kill without any personal danger to themselves? When everyone has become penetrated with the idea that any kind of honest work is honourable, there will perhaps be as many applicants for work now considered the most unpleasant as for that presently regarded as the most conducive to social esteem.

Another objection often heard is that

Nobody would Save under Socialism.

In Richter's book there is actually a description of a revolt caused by the confiscation of savings, as if the vast majority of workers in our time could save anything, and as if saving were to be precluded in the social commonwealth! Under communism the saving would be done by the community, not by the individuals; and under socialism, while the community would be the principal saver, individual saving would not be prevented. Every one will get credit for his work, upon which he may draw at leisure, spending his income when and how he pleases, and we can safely assume that even individual savings in the socialist commonwealth will be much larger than under the existing system, because earnings will be much higher and more general. Certainly there will be one great difference between the savings of the two periods. The savings of the socialist commonwealth will not breed; they will not yield any interest; they will not enable the saver to extort tributes from other workers. They will represent stores put aside during

times of abundance for the days of want, on the principle we observe in the animal kingdom. To be sure, man has made a great progress in the art of saving. Instead of hoarding perishable goods, of which part will prove to have been destroyed or stolen when the saver wants to consume his stock, savings take the shape of means of production, whose use more than covers the cost of storage and preservation, so that when the time of consumption arrives, the saver can obtain the full amount due to him out of the day's production. This process, which we can observe in our present world, would find its counterpart in the social commonwealth, but without the interest now paid to the saver. But I have already treated this subject amply in Chapters VII. and VIII.

Equal Division of Wealth

If there are antagonists of socialism to whom the impossibility of saving causes heartburn, there are others who find in saving their principal argument against communism, the only kind of socialism they ever heard of. Who has not met with that idiotic argument which forms the stock-in-trade of the ordinary Philistine: "And if you divide everything to-day, you will soon have again rich and poor men. Some would be thrifty and would save, while others would spend all, so that soon the old conditions would return." What are you to say to people who do not even know that communism does not mean division, but throwing together?

Under socialism, personal saving will certainly yield advantages to the thrifty, and there will probably exist more rich men than in our time; but there will be no oppression of the less favoured brethren, because one man will no longer depend on another for the means of living. In fact, there can be no poor where society is so wealthy that it can secure a certain minimum to all. This minimum might include as much as a house, with garden, plain furniture, clothing, and food. Our productive power is so enormous that the share paid to personal exertion would be such as to render hardly felt the part thus reserved to the individual in his capacity of a shareholder in the wealth of the community.

The mere conception that we should have to take from the

rich to provide for the poor proves how little such enemies of socialism know of the facts in point. Even Eugen Richter, with special capacity for figures, here blunders into his main error. He calculates how little an equal distribution of national wealth would give to each citizen: according to him, no more than £50 a-piece to the average German family. This idea also finds itself expressed in the old story of Rothschild's answer to the proletarian who wanted him to divide with him, and who got his share in the shape of one single florin, as representing Rothschild's fortune at that period, divided by the number of German citizens. The man was told to send along the others to take their share.

We have neither to reckon with the existing wealth nor with the new wealth produced from day to day, but with the potential wealth, the wealth which could be created under improved conditions when once the obstacles to free production are removed.

No Confiscation

Nor does this process of removal entail any confiscation of wealth, though it would certainly necessitate a metamorphosis of the forms which wealth accumulation mostly assumes in our time. This subject was treated in Chapter VIII., yet I may be allowed again to direct attention to the great difference existing between wealth consisting in products of human labour, and wealth taking the form of tribute claims, *i.e.*, privileges of levying tribute from fellow-men. The one form of wealth can never be productive of any permanent danger; not so much because of its evanescent nature due to time's destructive powers, but because its possession in no way hinders others from producing the same kind of wealth. The wealth which consists of tribute claims, however, plays a most ominous part in our economic and social relations, for it is imperishable as long as the laws subsist which form its basis; and its possession not only enables its owner to extort the product of others' labour, but entails also the still more formidable right of absolutely preventing the exercise of this labour—as has been thoroughly explained in Chapter VIII. The workers need not grudge the wealth of the rich, whether it be justly or unjustly got, but they

have a right to claim that monopolies of all kinds be abolished which enable the rich to exploit them, and, what is much worse, to prevent them from producing wealth. No wealth is to be taken away from the rich, only obstacles to the production of wealth. It is not a question of dividing the existing stock of goods, but one of opening the flood-gates of unlimited wealth, and permitting an inflow far exceeding the present totality.

Victorious Socialism

What I have said so far may suffice to show that even the arguments brought forward against the communistic state are of little weight when looked at from the average worker's point of view. But, as I have already pointed out, communism is not the only form of socialism, nor is state socialism. We may attain the socialist's ideals in a way more congenial to the individualist: by the introduction of a rational currency, and by the nationalisation of land and natural resources, leaving production and distribution to voluntary co-operation.

Anyhow, the enemies of socialism forget that, to a certain extent, we are already living in the very midst of the socialistic state; that it is no more a question of whether we shall obtain socialism, but how far socialism is going to be extended. Sydney Webb showed in his pamphlet, "Socialism in England," which appeared in April, 1889, to what extent already at that date one of the most individualistic countries of the world had adventured into socialism:

"Besides our international relations, and the army, navy, police, and the courts of justice, the community now carries on for itself, in some part or another of these islands, the post, office, telegraphs, carriage of small commodities, coinage surveys, the regulation of the currency and note issue, the provision of weights and measures, the making, sweeping, lighting, and repairing of the streets, roads, and bridges, life insurance, the grant of annuities, ship-building, stock-broking, banking, farming, and money-lending. It provides for many thousands of us from birth to burial, midwifery, nursery, education, board and lodging, vaccination, medical attendance, medicine, public worship, amusements and burial. It furnishes and maintains its own

museums, parks, botanic gardens, art galleries, libraries, concert halls, roads, streets, bridges, markets, fire-engines, lighthouses, pilots, ferries, surf-boats, steam-tugs, life-boats, slaughter-houses, cemeteries, public baths, washhouses, pounds, harbours, piers, wharves, hospitals, dispensaries, gas works, water works, tramways, telegraph cables, allotments, cow meadows, artisans' dwellings, common lodging-houses, schools, churches, and reading rooms. It carries on and publishes its own researches in geology, meteorology, statistics, zoology, geography, and even theology."

I may add to this enumeration that Glasgow provides hydraulic power, the corporation of Vienna has a brick-yard, Tarnopol a municipal bakery which provides citizens with bread at cost prices, and Valparaiso has a municipal music school. From its municipal horse-races Paris draws £10,000 annually, while its nurseries and green-houses are profitable projects. Our New Zealand factory and poor laws, the Public Health Act, the Shop Hours Regulation Act, the Workers' Insurance against Accident and Sickness, Arbitration Acts, old age pensions, and our grading of dairy products, are all of them socialistic measures.

Fire Insurance

is not only carried on by the State in different countries, but in some parts of Germany it is even to a certain extent monopolised by the Government. So, for instance, in the Grand Duchy of Baden it is obligatory to insure four-fifths of the value possessed by buildings, in the State's fire insurance department; and for only one-fifth it is left at the option of the insurer to insure with private companies, who also insure furniture and other movable property. The system has proved very beneficial, which was to be expected on the following grounds:

1. The State can save the enormous waste inherent in the competitive system. Germany had, in 1871, 5,687 insurance agents. In 1881, their number had risen to 15,068; and in 1891 even this large number had more than doubled, the total having reached 31,437. This, of course, does not include the increase in the number of directors, managers, and other officials, of offices, advertisements, and other waste.

2. The State can minimise the risk by preventive legislation. In Baden, where, as stated, the State insures four-fifths of the value of buildings, all plans of such have first to be submitted to the department, and they are only allowed if every necessary precaution against fire has been taken. "The Feuerschau" (fire inspection) pays periodical visits to the buildings to see that all precautions are taken according to law.

3. The State avoids the risk of having to provide for people ruined by non-insured buildings. She prefers the prevention of poverty through compulsory insurance to the erecting of poor-houses. In fact, we find here the origin of compulsory State insurance in parts of Germany. The sovereign was called upon to grant timber from his forests when houses burnt down, and this led to compulsory insurance.

4. Reinsurance can be saved where such a large domain is mutually insured that a compensation of risks takes place.

I have gone more into detail here because of the agitation organised in New Zealand by interested parties against the State Fire Insurance Bill, proposed by Mr. Seddon in the legislature of 1901. Not that some of the arguments brought against it were without all justification. The question of compensation, for instance, certainly cannot be entirely ignored. Furthermore, if the State reserves the right to refuse risks—as the Bill in its present shape intends—she departs entirely away from the German principle—which insures every building, but adapts the rates to the risk, and insists on the best possible precautions. The New Zealand Bill would altogether take away the possibility of insuring in certain cases; for it is not to be supposed that private companies would take the business which the State leaves alone as unremunerative. However, when we encounter objections in the nature of the following—taken from the report of the Finance Committee of the Auckland Chamber of Commerce, end of July, 1901—it is difficult to suppress a feeling of regret at the backwardness in economics and sociology thus betrayed by one of the principal commercial corporations of the land.

Interference with the Tax-payer

"We object altogether to the Government starting State fire insurance, because it is a direct interference as competitors with

the business of its own tax-payers, which, in principle, is wrong. If it is right to compete with its own tax-payers in State fire insurance, then, carrying this principle farther, it would be right for the Government to start State butcheries, State woollen mills, State frozen meat works, and generally to do all it can to defeat the private trade of its own population. As a principle, we unhesitatingly declare this to be utterly wrong, and subversive of the best interests of the colony."

Why not abolish the post office, which might be carried on with great profit by tax-payers? Why not give over our railroads and harbours to private enterprise, and thus get one shilling in taxes for every pound of profit made by individuals at the expense of the community? What a terrible thing it would be if the State, through carrying on for the public benefit certain kinds of work, could get along without any taxes at all—so that there would be no tax-payers to compete with!

Fortunately, such extreme Manchesterism becomes rarer even in England and the United States, the hot-houses of individualism. In the colonies, the time is coming when persons holding such antiquated views will be regarded with the full degree of veneration due to the relics of a fast disappearing stage of civilisation. We have got already so deeply into socialism that the whole question is one of extension, not one of principle. If the community owns some land, which it leases to individuals, why could it not own all the land and lease it to the people who want to use it? If it carries on some productions, why not some more?

State Monopoly and Distribution

But even leaving this question of production aside as offering many important objections, why should not the State attend to the distribution of goods, as it already takes care of that of letters, of newspapers and of parcels? Beyond a certain point, there is not much to be gained by the concentration of production in many industries. In fact, it is often an open question whether the saving obtained on one side is not more than balanced by losses through the difficulties of supervision on the other. When we hear socialists speak of the waste through our anarchic production and distribution—as they express it—

they mostly illustrate their meaning by giving examples taken from distribution alone.

In this department facts speak too distinctly to escape anyone's notice. A walk through one of the principal thoroughfares of a modern city will teach people who never read a single treaty on economics that an enormous waste is here going on which wants looking into. We count 20 shops selling the same class of goods, where 1 could very well do all the work, with a saving of 19 rents, 19 advertisements, at least 10 salesmen, and so on as to heating, lighting, etc.- But that is only what we see at first sight. Behind this row of shops we can find quite an army of commercial travellers who sell them the goods which they offer to the public, spending millions for railroad fares, hotel bills, etc. Behind these we have another army of wholesale houses, of merchants, with their rents, advertisements, book-keepers, correspondents, etc.; and only after we have got beyond this last barrier we reach the producer. Even here we have not done with the waste in distribution. Commercial travellers have to be engaged to see the merchants, advertisements swallow a considerable amount, correspondents, salesmen, rents of show-rooms, exhibitions, etc., swell the amounts which have to be added to the original cost price of goods to cover expenses of distribution. Various calculations have been made to find out the addition to first cost paid by the consumer of the product, and they vary from 30% to 100%. With certain articles 900% is added, *i.e.*, the final price paid by the consumer amounts to ten times the original cost. Let us take the middle course, and assume the addition to be $66\frac{2}{3}\%$ on the average, which means 40% of the retail selling price.¹ Now let

¹ I quote a few calculations from Professor Adler's "Kampf wider den Zwischenhandel" ("Battle against the Middleman"): "Taking 100 as the original cost price of the goods, the following figures show their prices at retail: Simple victuals, 120-150; kerosene, 120; coffee, 150-200; ordinary cotton goods, 120-150; woollen goods and more expensive cotton goods, 150-200; hardware and fancy goods, 200-500; alcoholic liquors, 200-500; tobacco and cigars, 150-500; glass goods, 200-300; paper, 150-300; books, 200-300; pamphlets, 300-500, etc."

He thinks that the average addition to original cost made by the middleman amounts to 50%; but he is below the mark, according to my calculations, which make it $66\frac{2}{3}\% = 40\%$ of selling price. Another author, Gustav Maier, states that in Zürich, a city of 150,000 inhabitants, 1 million francs

us see how much could be saved of this percentage if, with production left to private enterprise, distribution were monopolised by the State, just in the way in which France, Austria, Italy, Spain, and Roumania monopolise that of tobacco in its different preparations. That in these countries a part of production is also monopolised by the State need not disturb us, for the system of distribution would not be changed in the least if the production were entirely left to competition. No merchants, no commercial travellers, no advertisements (except those of manufacturers who draw attention to their goods to induce the public to demand them in the State's shops; not those of rival retailers who want to attract custom to their special shops), and only as many selling establishments as the convenience of the public requires, deal in tobacco and its manufactures in the above-named countries. There being no credit, a lot of book-keeping and costs of collection are saved. The saving must be greater still where the distribution of all goods is monopolised by the State. Delivery, for instance, being centralised as in the post office, one cart would go into a street where 20 now follow each other. Just think what a letter would cost if 20 postmen of 20 competing post offices were to come one after another, each delivering one letter at the same house, instead of one coming and delivering 20 letters; not counting the inconvenience to the public of having to open the house door 20 times instead of once! The greatest saving, however, would be that in rents; not only through having fewer shops, but through paying less for the floor rent at each of the few remaining selling places required than the present shop has to pay. For two reasons:

1. There would be no such competition for land to build shops

a-year are spent for advertisements in the newspapers, while those of another kind may amount to as much again, so that of the 30,000 families each had to spend about 65 francs on this head alone. The increase of middlemen in Germany from 1881 to 1891 has been almost 40%, while the increase of the population in that period has only been 11.65%.

I add from the vast material collected only one further calculation given by the already mentioned W. G. Moody, before the United States Senate Committee of 1885: "A farmer sells his wheat to the middleman at from 40 to 60 cents a bushel, and it goes into consumption at \$1.50 a bushel. We, the consumers, are paying here \$10, \$11, \$12 a barrel for flour; and as there are 4½ bushels of wheat in a barrel, anybody can make the estimate of how much is paid in the way of toll."

on, as only one-twentieth of selling places are needed, and consequently the ground would not cost more than that used for private dwellings.

2. Immense central magazines of many storics would be erected, with lifts, providing much more floor space than the present average shop for the same land surface. This land once bought by the State, no landlord could raise rents in proportion with the increase of profits, according to their present agreeable and remunerative custom. Attending to customers would require much less of the staff's work. Competition now forces salespeople to waste a great deal more time with each customer than would be needed if no more subserviency, and just as much system, were shown as the public gets in the post office. I have been told—when I lived in the United States—that many ladies go "shopping" just for fun, visiting one store after another to price goods, often without buying anywhere. A good part of the staff's time is taken up that way. The State's store might exhibit books and shelves containing samples and patterns which every customer could personally examine until quite satisfied, when he or she would simply fill out an order, giving number, quantity, and price. Groceries, fuel, chemicals, etc., would be sold only in minimum quantities, or the price would be correspondingly increased to pay for the additional work. As wages would be much higher, the masses could afford to buy more at a time.

We have to take into account also the saving made by the producers, who would only have to send waggon-loads of their goods to the State's magazines, without a penny's cost for selling expenses, and without the trouble and charge of packing and forwarding smaller lots all over the country. Another great saving to the producer would be specialisation rendered possible through central buying. The buyers of the State would have before them the orders from all the selling places; they could easily assort them, and arrange with the manufacturers that each gets an order for certain numbers only; so that instead of hundreds having individually to manufacture a hundred numbers, each of them will only produce one number, and thus save a large amount of cost through specialisation and a correspondingly increased sub-division of labour, allowing special machinery, greater skill applied to the work, an easier supervision, etc., a great advantage already made use of by

the trusts. It is well known what this means, for instance, to the textile industry, where the making of new patterns and the change of patterns on the machines is a very important item of cost. We see that there need be no State production to attain such savings; centralised distribution would by itself produce the effect.

Taking all this into consideration, I think 6% of the retail price would suffice for the work of distribution instead of 40%, and this would not include the saving in production through specialisation. Wages now average not over 16% of the present retail price on the most optimistic valuation. (See Chapter VIII., pp. 377-80.) If merely the saving in distribution were paid out in higher wages, this would mean a trebling of present wages without reducing their purchasing power. The existing exploitation of labour does not even benefit those who get this enormous share of the product, for, unfortunately, if the cost of distribution is now 40% on selling price, instead of only 6%, it is because—leaving the saving of rent out of account—quite a number of people do a work which one could do better, and have to be paid low wages or poor profits where, in spite of selling much cheaper, one would make a good living. It is hardly necessary to repeat here what has been shown in Chapter VIII.: that under present conditions a saving of all this waste would be the very reverse of a blessing for the workers, as the landlords and money-owners would get the full benefit in additional rent and interest. The middlemen thrown out of work would only swell the army of the unemployed, or would drive others, whose billets they take, into those ranks. Competition for employment would be so much sharper, and the purchasing power of wages would finally fall instead of rising. As long as we are building on a bad foundation, every addition to the structure can only serve to bring about its downfall so much the quicker.

Under present conditions a reform in distribution would have the same effect which our progress in the means and systems of production has had, or which other reforms, general disarmament, for instance, would have: an increase in the army of the unemployed, and consequently the power of employers to reduce wages. But in the socialistic State we presuppose common land ownership, as well as a rational currency which take

away the land and money monopolists' cornering power ; and I wanted to show that under such conditions, without touching production and the part taken by drones, the mere nationalisation of distribution would be sufficient to treble the purchasing power of the workers. This would naturally result in their correspondingly increased consumption, and the necessity of an equal increase of production, which would create employment for the displaced middlemen. Instead of being practically mere drones, to a large extent, they would be productively employed. The increased production would allow further savings through a more extended division of labour. To this we have to add the beneficial effects of land and currency reform. Finally, quite irrespective of our system of production, greater benefits for the masses would be obtained than the most enthusiastic communist ever dreamt of ; for the most powerful motors of the social machine—personal initiative and free competition, or, let us call it : emulation—have been left untouched.

Competition in production and competition in distribution are two entirely different things. Whereas in the one case individual efforts result in improving the processes of production, with the effect of reducing cost price or bettering quality, competition in distribution only wastes power, increases price and decreases quality. Whether State production could do as efficient work as private enterprise may be open to discussion ; but there can be no doubt that, under a State monopoly of distribution, the average State official could do far better work than the best of our merchants.

To those who can fully appreciate the great qualifications required for a successful pursuance of the mercantile career, and who at the same time have had some experience of official red tape, my statement must appear rather paradoxical, and yet it is not difficult to prove its correctness. The greatest part of our merchants' ability is required for the purpose of fighting competition—a work entirely done away with under State distribution, which would be mere routine work, like that of the post office. A few capable business men would certainly be required in the central office to assort and to place the orders ; but outside of this any ordinary functionary could do the work required. Where no cajoling of customers is needed, because nobody can attract them elsewhere, where the art of pressing on

them things they do not want—unsaleable stock or inferior qualities at high prices—is of no use whatever, the showing of goods, shipping and money-collecting operations certainly do not require great genius. All this has been well proved in the tobacco-monopoly countries. Everything is successfully organised there in the way here indicated, and the public are well served. There are only as many selling places as are required; and in France, for instance, widows of soldiers are in preference chosen to attend to the sales, thus saving pensions to the State. The prices are not unreasonable; but if the large profit mostly obtained by centralisation and consequent absence of waste in distribution, instead of being made to yield about a million francs a-day, found its expression in a reduction of prices, no country in the world could supply cigars as good and cheap as are sold in France under the tobacco monopoly. Even as it is, I have heard the system praised by smokers as giving them the advantage of finding at once anywhere in the whole country cigars of the same quality for the same price; whereas elsewhere it takes them weeks in a new place to find exactly what they want.

Now, what can be done for one article can certainly be done for a hundred—in fact, for all kinds of goods—and it is evident that the saving must increase with the extent of the monopoly, permitting a *pro rata* saving of rent, wages, and general expenses.

The Competitive System

The outcry against the competitive system—which is the shibboleth of Anglo-Saxon socialism—as we see, is not without its justification, as far as distribution is concerned. What we owe to competition on the field of production is, however, decidedly undervalued by socialists. Invention has followed invention, and organisation has been steadily improved. From the farmer's home-made soap, home-spun and woven cloth, home-brewed beer, and home-made furniture, onward through the artisan's specialisation of these productions, and the crafts' organisation in guilds and corporations,—industrial evolution brought the immense factories, employing thousands of hands, and finally the union of these factories in the trusts. Could State socialism invent a better organisation than competition has thus brought

about? Is it likely that red-tape-bound officials would ever have organised food preparation with the genius of an Armour, or that iron and steel manufacture could have reached the high stage to which a Krupp, a Stumm, a Carnegie have brought it? Or that, even in the field of distribution, competitive examination would have brought forth such organisers as Whiteley, Wanamaker, Jaluzot, and others? Would the work of Manchester's great captains of industry ever have been matched by salaried State employees? Could the ballot have brought such capacities to the top—the ballot, which does not even provide us with the best political governors and administrators? In Chapter VIII. I have already shown that the fight does not lie between competition and co-operation, but between monopoly and freedom. I have exemplified my meaning by the example of a burning theatre with insufficient means of egress; but I can prove my case even better by going back to the illustration reproduced from "Rent, Interest, and Wages," in Chapter VIII., of the 100 workers on the land of E (the employer). E does not need more than the income of one-tenth of his land, and reserves the remaining nine-tenths for a pleasure park. The further supposition is that the people cannot get away, or if they could, would find similar conditions elsewhere; while the available tenth of the land is not sufficient to provide them with a living. What difference can it make to the people under such conditions whether they work the available land under the competitive or under the co-operative system? In either case there will not be enough food for all, and it will only be the choice between having some die and others getting enough to eat under competition; or of all slowly starving, living only a fraction of the time which sufficient food would have given them under co-operation. I grant that the latter system may be slightly preferable; but is such a poor improvement worth fighting for when plenty for all is easily attainable by merely freeing the land? There is so much of it that, never mind under which system they are working, they could all make a splendid living. If each has as much land as he needs, competition in producing the best and cheapest food will be mere emulation increasing the total output. It is a secondary question whether more is gained through such emulation than is lost through the concentration due to co-operation, or, let us say, under socialism, for even com-

petition is co-operation. The farmer who produces wheat, and the tailor who makes clothes for the market, co-operate in supplying this market by means of the best division of labour attainable according to their lights. Certainly there may be a better, a more improved co-operation, by which each may produce more still, and get more to his share ; but, as I have shown, our social problem is not a question of productive power, as it was in past ages or still is for some savages, or our technic progress would long since have settled it. It is the problem of freeing productive power from the taboing grasp of monopoly.

Though competition is a form of co-operation, co-operation does not always include competition. We may have co-operation with competition, as we should have, for instance, in a socialistic State, where the share of each worker depends on his output ; and we may have co-operation without competition, as under communism ; but we certainly cannot have competition without co-operation. In fact, it is exactly at this juncture that the road of communism branches off from that of socialism. Socialists who are not also communists are illogical when they cry out against competition, which they retain, though they call it *emulation*. "You may just as well hang a dog as give him a bad name," says the proverb ; the name does not change the nature of the beast.

The best proof of the fact that it is not competition, but the power to monopolise land and money, which is responsible for our social calamities is presented by the Trusts. These institutions offer the abolition of competition with a vengeance, and the masses are now crying out to get the much-abused competition back again. They want to set the law's machinery in motion against those destroyers of competition, while they revile the competitive system and discuss the desirability of abolishing competition by law. As I say, only

Communism

does entirely away with competition ; for while socialism does not exclude payment of each according to the work done—which, in fact, is the system advocated by most socialists—communism demands from each to work according to his capabilities, and gives to each according to his needs.

Whatever the future may have in store for us, communism is not an issue of practical politics in our generation. Even an ardent communist like Allan Eastlake, a member of the "Oneida Community," acknowledges this in a book published in 1900: "The Oneida Community." He says (p. 135): "The forces of Nature appear to rest, and just as vegetation hibernates, gaining force to meet the coming spring, so communism bides its time till humanity shall become so enlightened that universal brotherhood will be no longer a prophecy, but love shall cover the earth as waters cover the sea."

The Debt to the Past

I have already mentioned an element that works in the direction of communism: technic progress. The possibilities of labour will become so enlarged that the time lost in keeping accounts, if used productively, would supply such an amount of wealth that the waste inherent in any communistic system—through a diminished exertion and a want of economy in consumption—would be more than made up. But technic progress forces more and more on our recognition another powerful factor in the direction of communism, and that is the growing insignificance of the share in the product due to the labour of the individual worker.

How much is produced, even in our time, by the most genial and skilful worker, manual or intellectual, after we deduct what past generations have created: From the time when first a savage discovered the use of fire to that when this fire first made the ore yield its metal? From the stone hammer with which the hot metal was shaped, to the mighty steam hammer which could have smashed the powerful mammoth into atoms within a few minutes? From the firebrand that made darkness visible to the sun-like arc light? From the clumsy sledge—made of branches—wearily dragged across the wilderness, to the train moved by electric power over the mono-rail at the rate of 100-150 miles an hour, the speed of the hurricane? From the fish-bone needle to the sewing-machine? From the word of mouth heard with difficulty at the distance of a few hundred yards, to the wire-carried whisper that is understood

three thousand miles away? From the pointed flint scratching signs on a slab of stone, to the typewriter?

Do not forget that twenty years is the longest monopoly given by law to the inventor of the most wonderful improvement, and after this period anyone has the right to its free use. Furthermore, that under land nationalisation the work performed by Nature, all the advantages due to location and to the efforts of the community, will be common property. The part of the product due to the personal work of the man of one generation is so small that it will not be worth while to separate it at that future time when unfettered production has created additional progress, compared with which all that has been done in the past may appear insignificant.

But technic progress is only a small part of the immense debt of gratitude due by the individual worker to the past and present work of others. The product of his own personal work is merely plucked by him from that wonderful tree which we call our *Civilisation*, of whose roots the inventor's activity only forms one rootlet.

From the battle of the first savage who killed a cavern bear with a stone, to the valiant little body of Spartans defending Greek independence against Persian despotism, at Thermopylæ; from there to the common soldier unknown to fame who fell at Gettysburg, or to the German peasant whose strong arm helped to repel French aggression—millions of silent partners have contributed to the earnings of a Carnegie and Vanderbilt, and even to those of the humblest labourer. From the first shepherd who, in the silence of the night, ruminated over the nature of the distant shining orbs, to a Copernicus and Newton; from the unknown bard or bards to whom we owe the *Iliad* and *Odyssey*, to a Shakespeare and Goethe; from the philosopher forced to drink the hemlock cup and the glorious Martyr of Calvary, down to the humble student of our own days starving in a garret; all have contributed their share to the root fibres from which sap has been conducted to the tree *Civilisation*—more even than the whole army of inventors have been able to contribute. All these have helped to produce the dividends paid by the great steel trust or by the farms, factories, railroads, ships, etc., of the world.

When we take all this and much more into consideration, we

shall cease to wonder at the strange simplicity of those innocent-minded men who believe that a time will come when we shall no more discriminate between the individual mite's and the community's share in the production of the immense wealth-store flowing with such abundance that a few hours' daily toil supplies more—for all—than the greediest could consume. Communism will see its day arrive, and God's Kingdom, the millennium, will begin on this side of the grave.

The following quotation from Thorold Roger's "A History of Agriculture and Prices in England" is highly interesting and suggestive. It may help to overcome the last prejudice of those vainglorious intellectual workers who look down on the labourer as a being so far below their own caste that the mere idea of equal wages for all kinds of work seems to them too absurd for discussion, and is scoffed at, especially by men who, while living on the fat of the land, never did any useful work at all since they took the trouble to be born. Scoffs which would be a little more bearable, at least, if they were clothed in the witty phrasing of Ebenezer Elliot, the Corn Law rhymer :

"What is a Communist? One who has yearnings
For equal division of unequal earnings.
Idler, or bungler, or both, he is willing
To fork out his penny, and pocket your shilling."

I need not draw attention to the fact that the opportunities of education and leisure which socialism would give to all alike must create a much more universal diffusion of knowledge and skill than had been the case at the period mentioned by Rogers.

"The student of mediæval labour prices cannot, I think, but be struck at the low rate of remuneration paid for exceptional skill, that, namely, of the architect, or builder, or artist. The cost of construction was not enhanced by great professional fees allotted even to those who designed the finest and most finished structures of the age. The cause, I suspect, is principally to be found in the general diffusion of such artistic skill as the age possessed—a skill which in certain departments of art has not been rivalled, and is even now an object of servile,

and often incompetent, imitation. The technical knowledge of the time, though not apparently scientific, was, as far as practical results are concerned, of a very high order, as one can see even now in the architecture and illuminations of the time. But the carver of the ceiling of Magdalen College chapel and hall received only 8d. a-day for his labour in 1517 and 1520, though his name, John de Colonia, seems to imply that he was a foreigner, and probably a person of special skill. In 1543 a similar artisan gets no more. Later on the labour of such an artificer does not rise beyond 1s. So the work of the embroiderer of copes, and of the tailor who fashions and mends them, is paid at similarly low rates, while friar Gerard, in 1526, is employed for sixty-three days at Oxford in writing books at 4d. a-day, though he was doubtlessly fed at the college table. The clerks at the royal works, who keep the books, and check the labour which is hired and paid for, receive no more than ordinary artisans do, and often are paid less. Such low rates of remuneration for special skill must have rendered it possible that considerable works should be undertaken at very small charges. I have commented in my earlier volumes on the absence of all intermediaries. Purchasers of such articles as were needed for buildings dealt immediately with producers, when they did not, as they frequently did, manufacture the necessary materials themselves. Hence the interpretation of cost becomes comparatively easy, and the student of prices will find that high or low wages of labour were entirely unaffected by any commission paid to middlemen."

We are not Ripe for Socialism

I cannot close this chapter without entering into the one argument we hear most frequently when either socialism or communism is discussed. We are told that our present generation is not ripe for this sort of thing. "It may do when once men are angels, but," etc. Nobody ever gave a better answer than Henry George in his "Standard." He presented as an example the observations he had made on the Pacific steamers. At that time, it seems, the steerage passengers were not over-supplied with food, so that at meal times they fell upon the victuals like ravenous wolves in a "the devil take the hindmost"

struggle, while the saloon passengers, who sat at a well-supplied *table d'hôte*, behaved quite differently, eating and drinking as educated people are in the habit of doing. And yet it was not character or education which was responsible for this remarkable difference, but the inequality in the food supply. George was confident that if the positions were changed, if the saloon passengers had been transferred to the steerage, and the steerage passengers to the first cabin, we should soon have seen the new steerage passengers fall upon the victuals like voracious animals, and the former steerage passengers politely hand each other the dishes before they served themselves, and in every way act in as kindly a manner as their predecessors. If once everyone can with ease procure as much of the necessities as well as of the luxuries of life as he desires, the disappearance of the mad struggle for the means of existence will result in a totally different picture of human character from the one we are used to.

Education for Socialism

My friend, John Richardson of Lincoln, in his excellent book, "How it can be Done,"¹ recognises fully the difficulty of introducing complete socialism to a generation brought up under the individualistic system, and proposes to begin by educating the growing generation for socialism. The system of schools he advocates is highly ingenious. Its main feature is that not only the mind is to be fed, but also the body; for it is impossible to develop starved brains. His pupils are fed, clothed, and, if necessary, lodged at the school. Great attention is to be devoted to physical exercises, so as to develop a healthy body as well as a healthy mind. The expenses incurred are obtained by taxation in the beginning, but the productive work carried out by the pupils is supposed gradually to make the schools self-supporting; for in the highest class, the continuation schools, half the time is devoted to the different branches of knowledge, and the other half—four hours a-day—is spent in the workshops, where all trades are taught, and at the same time—unlike the system usually pursued in

¹ The seven best chapters have been published in a penny edition under the title, "The Education Problem and its Solution" (Twentieth Century Press, Ltd., London and Glasgow).

our present industrial schools and technical institutes—what is produced in the workshops, gardens, fields, laundries, dairies, kitchens, etc., is to serve for practical use, to feed and clothe the pupils, and to sell in the open market so as to pay for outlays. This system is not only of great pecuniary advantage, but offers much more encouragement to the pupils than the ordinary methods which utilise their work for educational purposes, but otherwise waste its results.

The children begin in the elementary schools, where they spend four years. From these they come into the second-grade schools, and then they proceed to the continuation schools, where they stay between the ages of 15 and 18. Above these is the university, where the pupils are from 19 to 21 years old. Here, too, a certain amount of productive work, enough to pay for the tuition and maintenance of the pupils, has to be given, unless a corresponding fee is paid. This would mean no loss of time for the studies, for only a certain amount of knowledge can be forced into the brain, and those who spend half of their time at work which exercises the body, while it relieves the mind, will finally get far ahead of those who cram from morning till night.

Competitive Examinations

The world would be much further advanced if it were not for this brain-killing cramming. Our pedagogues are even less to blame for its prevalence than our social system, which drives men and women into eager competition for Government offices of all kinds. If every department of work had more openings for willing workers than there are applicants, because without the least effort a good living could be made at anything the pupil who left school liked to put his hand to—only those would apply for office who feel themselves specially qualified for the work ; and as it would not be a special boon to obtain such employment ; as the Government would be happier to obtain public servants than men and women are now to secure a billet, we could then safely leave it to the heads of departments to select their people—the principle on which the private employer is so much better served than the State. Of course, as long as want of employment is the rule, there may be great danger in giving

such power to our administrators, especially while the present system of government continues. The Chinese competitive examinations and their imitations are certainly preferable to the system which gives the spoils to the victor ; but they yield poor results for all that. Every teacher knows that those of his pupils who come out best at competitive examinations are very often not the most able youths, and if he were allowed to select according to his observations better results might follow. I well know that this would be as impracticable as the selection through the heads of departments, so long as the existing temptations to dishonesty and favouritism continue in force. However, even the teacher's most honest testimony is not always reliable, and some of our best men have been considered good-for-nothings by their pedagogues. Every man of the world knows that the boys who bring the best testimonials from school, who not only win the prizes, but also are personally recommended by their teachers, are usually not the most efficient for practical life. I had a partner once, one of the most ingenious and practical men I ever met, a born captain of industry, with a keen knowledge of men and a wonderful ability of choosing his officials, who jocosely said that if ever his son came home and told him he was first of his class, he would extinguish him. He told me that in his experience he never knew the best boy at school to succeed in practical life. Examinations may be useful to obtain red-tape men, but the creative genius and organiser are not thus found. To pass an examination requires a good memory or the hardest study. In either way, it is the receptive faculty which is specially exercised ; and it is usually found that the more receptive a man is the less his creative, his productive, qualities are developed. But, as I said, our miserable method of distributing Government offices according to the results of competitive examination—itself the result of our social system—is mostly responsible for such a retrograde pedagogy. Instead of developing a boy's originality we train him to become a parrot, and the best parrot, having the best chance of obtaining an office—the great aim in a time when employment in the ordinary walks of business becomes more and more precarious—parents with rage in their hearts submit their children to the curriculum of the pedant best fitted

to cram for the examinations, and least able to develop useful men and women.

Whenever it will be easy to earn a living in hundreds of occupations, parents will not any longer submit to see their children educated in a way which, while rendering them unfit for ninety-nine occupations of a hundred, will specially fit them only for this hundredth, or rather, fit them for the engagement, not for the work. Our schools will then change their curriculums, will adapt them to the demands of practical life, and the State will have to desist from exacting any other learning for her examinations—if there are any—than can be attained by the average scholar. She will finally take the best men and women, who have shown practical capacity for business, and will, of course, only get them by paying them as much as they could earn anywhere else. This selection will be exercised by men of a different stamp from that now so often found in our administrations. The highest offices will perhaps be filled by successful captains of industry, who retired after having earned a competency, and who devote their services, free of charge, as honourable obligations to their fellow-citizens.

Latin and Greek

The scope of this work does not permit to more than indicate some of the most important changes in our methods of education which are urgently needed. It would lead me too far to give the full reasons which have made me a deadly enemy of the so-called humanities as a subject of study for our boys. Let those who want to specialise in philology and historic research busy themselves in the dead languages, of which every university might provide teachers for those who want them, while our schools and colleges are entirely purified of them. If our skulls were elastic, and the amount of brain which could be stocked in them unlimited, if human life extended over as many centuries as it fills decades, I should have nothing to say to such fancies; but as it is, a boy has to work hard to master that knowledge which an educated man absolutely needs, even if he is not urged to waste his best time in comparatively useless studies. Emerson once said that it is no use swimming a river over which good bridges are built; and for each boy to study Greek and Latin

enough to enable him to read the classics when there are good translations on hand is even more senseless than for all to swim where the work of a few is sufficient to supply the means for a pleasant walk over. But the worst is that, after most of the boys have learnt how to swim the dead tongue rivers, they have no time left to travel in the classic fields on the other side—which they might have done if they had been allowed to use the bridges. The same holds true in regard to the pretension that Latin is a good preparation for the learning of modern languages. It is like spending one's life to build a ladder for the purpose of climbing a fruit tree, and then having no more time to gather the fruits; while others, in the interim, climbed the tree without ladders and ate to their heart's content. How many of our Latin and Greek scholars know anything of French, Spanish or Italian, not to speak of the most useful of foreign languages: German, whose study, by-the-bye, is not in the least helped by that of Latin or Greek, except as to some foreign additions to the language which mostly exist also in English. To understand what a German means by a "locomotive," an Englishman does not need Latin or Greek. I am delighted to find many practical men taking the same view. Carnegie's exclusion of classic studies from the benefits of his £2,000,000 gift is a well-deserved slap in the face of our pedagogic Rip van Winkles. After the precedent of Germany, where their fanaticism has already been restricted, another even more vigorous whack is administered to them by Russia's Tsar, as the following welcome news indicate:

"Russia is abolishing the classic languages in her public schools. The Teachers' Commission, under the presidency of General Vanovsky, has presented its report to the Emperor, and in three or four years Greek will entirely disappear, and Latin no longer be obligatory. Classical schools are, however, to be opened in university towns. The new regulations meet with almost general approval. French and German are both made obligatory; more attention will be paid to geography, history, and literature, and more time devoted to the physical training of the boys. The Tsar, after signing the ukase, submitted it for further approval to the head of the Holy Synod and the Metropolitan."

The time will no doubt come when English will take the place of French, which is spoken by a very small fraction of the world only.

Grammar

Another nuisance is the important place we give to grammar in our schools, making it the foundation, whilst it should be the roof. Distinguished pedagogues begin to find out that the best method of learning any language is that of the child, which is taught to speak correctly by practice, without obtaining the least notion on which system it does so. On the other hand, most of those who try to learn a language with the help of a grammar—though they may, if they possess a good memory, remember the rules—end by neither speaking nor writing correctly. Who would not prefer to walk without knowing the mechanical principles which thus empower him, to being fully conversant with the action of all the muscles and tendons, but not able to make a single step? My little girls, brought up in New Zealand, are learning German and English together, and about as easily as if only one language were spoken in the house. When they are old enough, they will read books in both languages, and by such practice, I hope, will learn to write in good style without knowing anything of grammar, which, as far as they may ever need it, will be mastered by them in a few weeks later on, when more necessary studies have been achieved, and especially after the lessons of practical life and the development of their bodies have been attended to.

Lord Macaulay says in his essay on Lord Bacon: "We cannot perceive that the study of grammar makes the smallest difference in the speech of people who have always lived in good society. Not one Londoner in ten thousand can lay down the rules for the proper use of *will* and *shall*; yet not one Londoner in a million ever misplaces his *will* and *shall*. Dr. Robertson could, undoubtedly, have written a luminous dissertation on the use of those words. Yet even in his latest work he sometimes misplaced them ridiculously. No man uses figures of speech with more propriety because he knows that one figure is called a metonymy and another a synecdoche. A drayman in a passion calls out, 'You are a

pretty fellow !' without suspecting that he is uttering irony, and that irony is one of the four primary tropes. The old systems of rhetoric were never regarded by the most experienced and discerning judges as of any use for the purpose of forming an orator."

Much more could be said, but even the little mentioned may sound paradoxical enough to most ears. My consolation is that—within my comparatively short life—many things which were looked at as out of the question have come to be considered matters of course.

Evolution towards Communism

Mr. Richardson's work is in the right direction. No socialism without socialists and men with an insight into real life. The worst enemies of socialism are those conceited, scholarly ignoramuses, especially in the field of economics, whom we so often meet.

After the completion of education, Richardson proposes, somewhat on Bellamy's plan, to make each pupil devote four years to the community, to pay back in productive work the outlays for his education in so far as the tax-payer had to advance the cost, so that after the system is once in full operation no further taxes will be required for the education and maintenance of the children. After that, men and women so educated would probably prefer the continuance of socialistic production and distribution, would have become fit subjects for a socialistic State, with the qualifications which would render even communism possible and practicable. Where the right spirit exists, communism has been a success ; in the family, for instance, where love binds the members together, or in certain communities held together by the religious tie. The education of men and women on the Richardson plan, and, more yet, the growing perfection of our means and systems of production, may finally cause the socialistic State to evolve towards complete communism. Education would banish envy, technic progress would make labour so productive, would increase wealth so enormously, that full freedom of consumption might be given at the banquet to all for the share of the work they are willingly doing ; as is accorded to all who have paid for their board at

any good hotel. Anyhow, the mixed system might much sooner recommend itself than we now think possible. Even without any further improvement in the arts of production, we could add to the many things now enjoyed free by the masses, such as free schools, free libraries, museums, picture galleries, parks, street lighting, police, etc. We could go as far as to include in the free list a simply furnished house, three simple meal a-day, one or two suits of clothing a-year, and fuel for winter. There will be enough wants left to take away the fear that men will remain idle after that. They will work more than to-day, or anyhow, to better purpose and with better effect; just as the work of the free man is worth more than that of the slave. They will not work for a pittance, certainly, and nobody can make them do it, as the whip of hunger and cold will be no more at the service of the employer. They will work as they never do now, when the whole fruit of their labour once belongs to them, and when they will work to such advantage that the stock of wealth produced will be so large that the part paid to the community to provide for the items mentioned will be insignificant in proportion. The mere increase of rent under such conditions would more than supply the means. Perhaps even the product of the four years of free work given by the young after the completion of their education, on the Bellamy-Richardson plan, would suffice to supply these means. What a better conscription this would be than that for the 2 to 5 years, military service for the purpose of acquiring proficiency in the business of slaughtering fellow-men!

Advice to Socialists

I think that what I have said so far has entitled me to ask for sufficient confidence from socialists, and belief in my warm attachment to their principles, to procure me an unbiassed ear for the few words of advice with which I close this chapter. Their ideals will be far better served by a little less talk and more work. Less talk of the final aim and more work for immediate steps towards that aim. Millions who fight shy of them when they preach their socialist or communist State will cheerfully help when they go to work to lay the foundations of a thorough social reform. Nobody will hinder them from keep-

ing before their eyes their great goal : the brotherhood of men ; but if they want to do some real good, they will speak less of this brotherhood and do more practical work towards establishing it. As I said once before, there are no through tickets obtainable to the socialist State ; we have to book from station to station.

The first two stations are *land nationalisation* and *currency reform*. Nothing whatever can be done until natural resources are the property of the people at large, until our country is ours not by name only, but ours in reality. But even on free land free work is impossible as long as our hands are fettered by engagements to pay what practically does not exist ; as long as debts are not contracted in something which it is in our power to pay—our labour and its products—, but in baubles found in the bowels of the earth in distant places which not one in a thousand has access to.

Another station to which tickets are obtainable at once is *co-operation* : the best school for the socialist State, and one which is pregnant with immediate splendid results.

But the admission to the booking-office must be fought for before any ticket is obtainable ; the people must obtain the power to mould their own destinies, independent of despots, whatever their name ; and it is not always the traditional despot who proves the most dangerous. In the Anglo-Saxon world it is not the king but the party boss who is most to be feared. The practical democrat in our country will not fight for a republic, but for the *proportional vote*, the *referendum and initiative*, the *elective executive*, never mind whether there is a figure-head above this executive or not.

This is the most pressing work cut out for socialists, a work in which they will find helpers in the ranks of millions who as yet look at socialism as the worst craze that ever afflicted humanity. The surest way to convince these men of their mistake is to take them along, or to follow them, step by step, station by station, on the lines approved by really progressive men. Both parties will thus attain the great goal, and will laugh at the idea that they once quarrelled about its name. Those who call it *Free Individualism* will after all find themselves in the same place with those who insisted upon giving it the name of *Socialism*. It will not be the only case where particles flying from each other along the periphery of a circle finally meet.

CHAPTER XII

CONCLUSION

"The idea which now begins to agitate society has a wider scope than our daily employments, our households, and the institutions of property. We are to revise the whole of our social structure, the State, the school, religion, marriage, trade, science, and explore their foundations in our own nature ; we are to see that the world not only fitted the former men, but fits us, and to clear ourselves of every usage which has not its roots in our own mind. What is man born for but to be a Reformer, a Re-maker of what man has made ; a renouncer of lies ; a restorer of truth and good, imitating that great nature which embosoms us all, and which sleeps no moment on an old past, but every hour repairs herself, yielding us every morning a new day, and with every pulsation a new life ? Let him renounce everything which is not true to him, and put all his practices back on their first thoughts, and do nothing for which he has not the whole world for his reason."—RALPH WALDO EMERSON.

IN the year 1895, I wrote a Utopia : "The Real History of Money Island," whose concluding chapter made the following appeal to England :

"The cock crows. The night is over. Money Island is sinking in the cloud-ocean bordering dreamland, as the sun is rising on the horizon. It was a dream ; nothing but a pleasant dream. Will it ever remain so ? It is not for me to answer, but for a nation which has done great things for humanity in the past. It has sat around the cradle of human Liberty ; it has nursed the growing babe, until its giant arms have embraced the whole world. Despotism has not yet everywhere disappeared, but the arms of giant Liberty are tightening even around countries in which *regis voluntas suprema lex*, a tarrying shadow of the Middle Ages, is as yet holding up its head. The hydra has more than one head, as Hercules found out in the good old time, when monsters yet abode upon the earth in their undisguised ugliness, so that

heroes knew exactly where to strike. They are much worse in our time, when hired pens so cleverly manage to hide them behind beautiful names, impenetrable armours for the intellectual lance of the multitude. *Capital, the friend of labour!* Capital meaning the market value of the privilege to fleece labour. *Interest, the reward of abstinence!* Of those who have to pay it. *The instigator of saving!* As if the bee needed interest to stimulate its honey-collecting work, and as if interest, by diminishing the amount of savings, required to live without further work, by disabling others from saving, did not prevent more work than it stimulated. *Free trade!* Even if it means opening your own armour, while others double their own protective shield. *Laissez faire!* Even if the people starve. *Full play to individual effort and sacredness of property!* Even though property means the soil of the country, and though work and life are impossible without land. *Sound money!* Even though soundness means a growing monopoly for the owners of a scarce commodity, which is the only legal tender for debts, the only standard of value, the only valid means of exchange. *Credit the soul of business!* By exacting interest which kills trade. *Gradual equalisation of wealth!* Because the rate of interest goes down, the sign of an unnatural overgrowth of tribute claims with which tribute payment cannot keep pace. *Free trade in land!* To have the mortgage-lord take the place of the land-lord, the plutocrat that of the aristocrat. *Over-population!* With an over-production of all necessities of life. *Over-production!* With millions of needy people. *Survival of the fittest!* The fittest being the useless sprig of a line of idle drones, and he who succumbs an honourable toiler.

"No wonder it becomes so difficult to find the head of the hydra, the new head which has grown in place of the old one: *Plutocracy*, the ugly successor of *Despotism!* Who will be the modern Hercules to cut off this head? Will it really be that great nation which has done so much already? *Noblesse oblige.* The world expects England to do her duty."

As mentioned in Chapter IX. of this book I followed up the appeal with propagandism among the co-operative societies of England, which contain the nuclei of the future co-operative

commonwealth ; but without much success. Old nations are, like old individuals, slow and deliberate.

To the young futurity belongs. A hardy little band of pioneers in far Pacific isles have evinced abundant energy and goodwill ; they have proved their capacity for truly great work. But their measures, so far, have been half measures ; and half measures may be worse than no measures : they may inspire a sense of progress where advancement there is none. And why should we build a frail cockle-shell that a few daring men may risk their lives in the dangerous thing ? Even if those few succeed in gaining yonder bright and beckoning shore, the contrast of their well-being would but intensify the misery of the innumerable multitude unable to join them there.

I have spoken with these gallant pioneers, I have shown them how the bridge can be thrown across the wide and foaming torrent, so that all mankind may enter upon their rightful inheritance, may calmly and securely take possession of their own. Many have listened, and have believed with me. But the majority want full working details before they set to with muscle and with brain.

I here lay the plans before them, and before all who have courage to help in the undertaking. Not that I profess to be the inventor of the construction. Long since was the general idea propounded, and sections of it have been worked at by many a predecessor. I have but tried to connect these sections, here and there supplying missing intermediate links and adaptations. Chiefly have I considered the facts and possibilities of actual life. I propose nothing which is entirely new in all its parts, nothing which presents more than a slight advance on already existing and approved lines.

The scientific currency, in which I see the most immediate hope, is only the regulation of a system practised over a great part of the world. This regulation merely tries to preserve the advantages of a paper currency, while eliminating its defect : the danger of inflation. Even here nothing entirely new is proposed ; for to keep paper money at par with one merchandise—with gold—has been successfully done.

Tabular standards purporting to give the average price of all merchandise have also been proposed, and also tried, in certain special contracts. The substitution of this average price

of all merchandise for the price of one merchandise was only a slight step in advance, slight enough to prevent any doubt of its practicability, but still powerful in its consequences.

A State bank issuing paper money is nothing new. Without such help Russia and Argentina could not perhaps have attained to their present development.

Land ownership by the State has proved most advantageous in different countries, and land reformers want nothing but the mere extension of a practical system by practical means. Practical, because the proposed mode of obtaining possession of the land is neither new nor difficult. Especially when preceded by the proposed currency reform, it will prove an easy process. Nor is the planned method of using the land a new one. It already obtains, almost exclusively, in Great Britain, and it is gradually gaining predominance in the United States; consequently, it may be said to prevail throughout the Anglo-Saxon world. The tenant—not the owner—has become the principal land user; and the substitution of the entire community or the private monopolist can only prove a benefit to all, without changing the system of occupation. Two million co-operators of England are already undertaking the next reform: the abolition of our fearful waste in distribution, and the organisation of labour co-partnership for production. The gigantic trusts of the United States, on the other hand, are consciously or unconsciously working towards the same end by other methods.

Education and political reform, incited by practical results, rather than by theory, have already begun to advance on the lines here projected.

This book thus drafts the specifications for a bridge that will span the seething river which separates us from our social paradise. Material is accessible, construction is easy.

New Zealanders, friends, you have skill, courage, and high intent! Examine the plans laid before you; and if you find them adequate, be up and doing! All the world awaits your endeavour; all the world will gladly follow you into the glorious sunlight of a new age!

THE END

